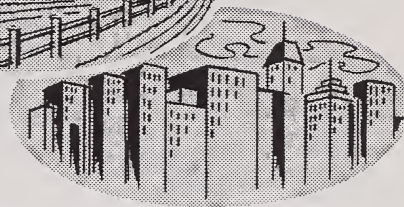
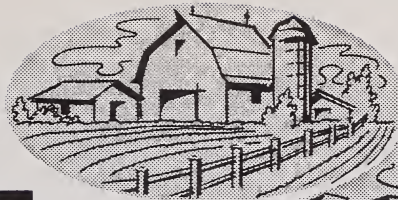


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DEMAND AND PRICE SITUATION



DPS-111

For Release February 9, A.M.

FEBRUARY 1967

IN THIS ISSUE

- GENERAL AGRICULTURAL SITUATION
- FACTORS AFFECTING DEMAND FOR FARM PRODUCTS
- BALANCE OF PAYMENTS
- CURRENT COMMODITY SITUATION

SPECIAL ARTICLE

- GROSS PRODUCT ORIGINATING IN AGRICULTURE, 1947-65

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ECONOMIC RESEARCH
SERVICE

U. S. DEPARTMENT OF
AGRICULTURE

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1965		1966			
		Year	Dec.	Sept.	Oct.	Nov.	Dec.
Industrial production <u>1/</u> <u>2/</u>	: 1957-59=100	: 143	: 149	: 158	: 159	: 159	: 159
Final products	: do.	: 143	: 149	: 156	: 158	: 158	: 159
Consumer goods	: do.	: 140	: 144	: 146	: 149	: 148	: 149
Autos	: do.	: 183	: 182	: 149	: 178	: 167	: 167
Equipment, including defense	: do.	: 147	: 159	: 177	: 179	: 180	: 181
Materials	: do.	: 144	: 149	: 159	: 160	: 159	: 158
Construction: <u>3/</u> <u>4/</u>	:	:	:	:	:	:	:
Total outlays	: Mil. dol.	: 71,930	: 76,443	: 73,627	: 70,309	: 71,094	: 70,373
Public construction	: Mil. dol.	: 21,931	: 22,998	: 23,902	: 23,555	: 24,003	: 23,811
Private residential	: Mil. dol.	: 26,689	: 26,684	: 23,100	: 22,012	: 20,777	: 20,320
Housing starts, private only	: Thousands	: 1,505	: 1,769	: 1,075	: 848	: 1,007	: 1,102
Manufacturers' shipments, orders, and inventories: <u>2/</u> <u>3/</u>	:	:	:	:	:	:	:
Total shipments, monthly rate	: Mil. dol.	: 40,279	: 42,622	: 44,091	: 44,487	: 44,503	: ---
Durable goods, monthly rate	: Mil. dol.	: 21,020	: 22,316	: 22,971	: 23,451	: 23,349	: ---
Unfilled orders	: Mil. dol.	: 66,068	: 66,068	: 79,170	: 79,923	: 79,956	: ---
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 68,015	: 68,015	: 74,884	: 75,788	: 76,854	: ---
Durable goods	: Mil. dol.	: 42,324	: 42,324	: 47,568	: 48,352	: 49,240	: ---
Employment and wages: <u>2/</u> <u>6/</u>	:	:	:	:	:	:	:
Total civilian employment	: Millions	: 72.2	: 73.4	: 74.2	: 74.2	: 75.1	: 75.2
Nonagricultural	: do.	: 67.6	: 68.9	: 70.1	: 70.2	: 71.0	: 71.0
Unemployment	: do.	: 3.5	: 3.1	: 2.9	: 3.0	: 2.9	: 3.0
Workweek in manufacturing	: Hours	: 41.2	: 41.3	: 41.5	: 41.4	: 41.3	: 41.4
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.61	: 2.66	: 2.74	: 2.75	: 2.76	: 2.77
Income and spending:	:	:	:	:	:	:	:
Personal income <u>3/</u> <u>4/</u>	: Bil. dol.	: 535.1	: 558.2	: 590.0	: 594.4	: 598.5	: 601.5
Consumer credit outstanding <u>1/</u> <u>5/</u>	: Mil. dol.	: 87,884	: 87,884	: 91,639	: 91,899	: 92,498	: ---
Automobile	: Mil. dol.	: 28,843	: 28,843	: 30,793	: 30,852	: 30,937	: ---
Total retail sales, monthly rate <u>2/</u> <u>3/</u>	: Mil. dol.	: 23,662	: 24,816	: 25,703	: 25,550	: 25,706	: 25,362
Durable goods, monthly rate	: Mil. dol.	: 7,810	: 8,252	: 8,394	: 8,276	: 8,185	: 8,143
Inventory stocks, book value <u>2/</u> <u>5/</u>	: Mil. dol.	: 34,607	: 34,607	: 36,355	: 36,680	: 36,734	: ---
Prices: <u>6/</u>	:	:	:	:	:	:	:
Wholesale prices, all commodities	: 1957-59=100	: 102.5	: 104.1	: 106.8	: 106.2	: 105.9	: 105.9
Commodities other than farm and food	: do.	: 102.5	: 103.2	: 105.2	: 105.3	: 105.5	: 105.5
Farm products	: do.	: 98.4	: 103.0	: 108.7	: 104.4	: 102.5	: 101.8
Foods processed	: do.	: 105.1	: 109.4	: 113.8	: 112.4	: 110.7	: 110.6
Consumer price index, all items	: do.	: 109.9	: 111.0	: 114.1	: 114.5	: 114.6	: 114.7
Food	: do.	: 108.8	: 110.6	: 115.6	: 115.6	: 114.8	: 114.8
Prices received by farmers <u>7/</u>	: 1910-14=100	: 248	: 259	: 270	: 266	: 259	: 258
Crops	: do.	: 232	: 224	: 236	: 233	: 230	: 230
Livestock and products	: do.	: 261	: 290	: 299	: 294	: 284	: 282
Prices paid, interest, taxes, and wage rates <u>7/</u>	: 1910-14=100	: 321	: 324	: 337	: 337	: 337	: 337
Family living items	: do.	: 306	: 309	: 318	: 318	: 318	: 318
Production items	: do.	: 276	: 278	: 289	: 287	: 286	: 286
Parity ratio <u>7/</u>	:	: 77	: 80	: 80	: 79	: 77	: 77
Farm income and marketings: <u>7/</u>	:	:	:	:	:	:	:
Volume of farm marketings	: 1957-59=100	: 119	: 134	: 133	: 172	: 170	: 130
Cash receipts from farm marketings	: Mil. dol.	: 39,187	: 3,782	: 4,044	: 5,122	: 4,784	: 3,717

Annual data for most of these items for years 1929, 1941, 1947, and 1952-65 appear on page 35 of the May 1966 issue of The Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U. S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U. S. Department of Labor. 7/ U. S. Department of Agriculture.

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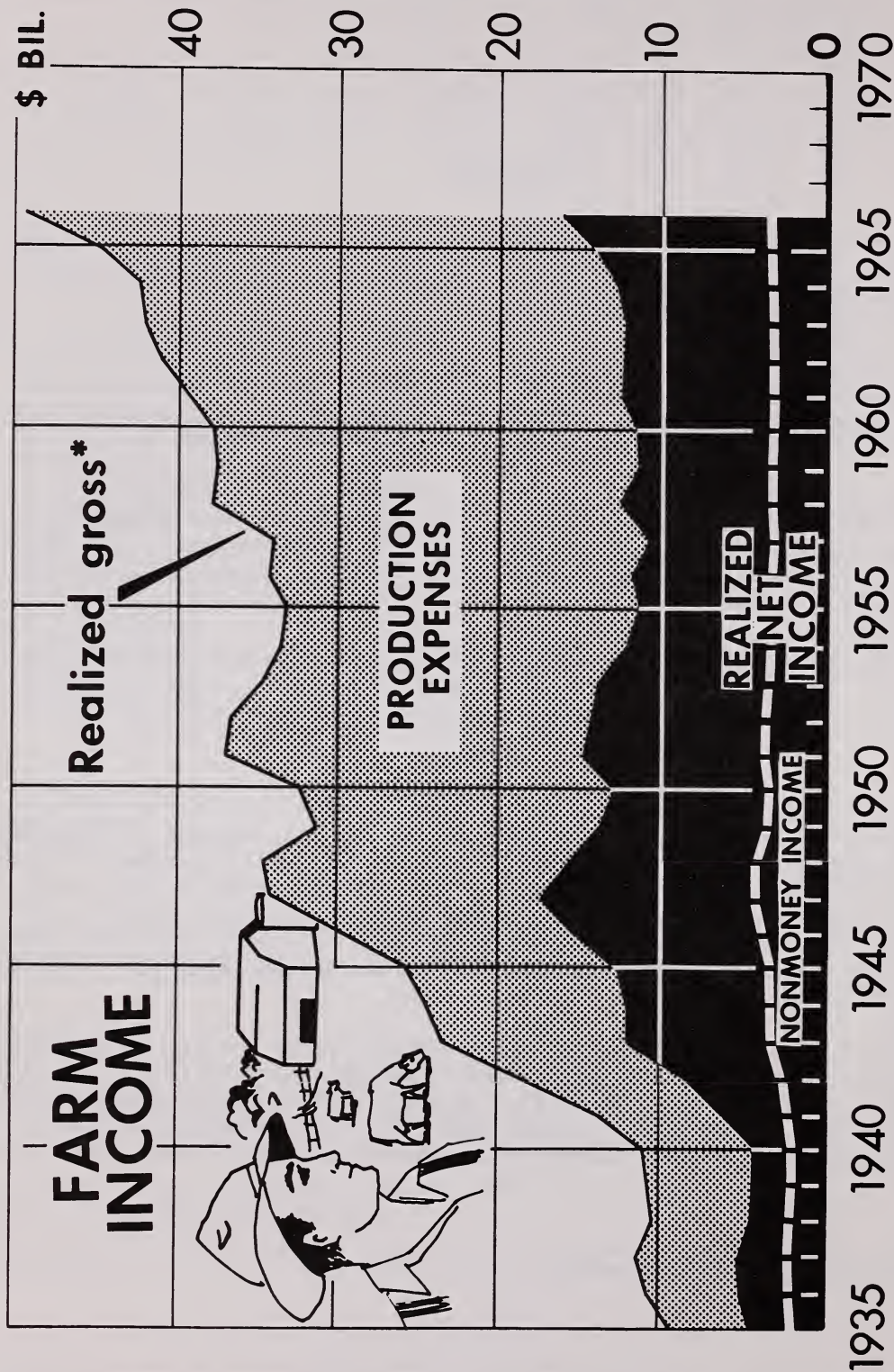
Approved by the Outlook and Situation Board, February 1, 1967

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SUMMARY

Nineteen sixty-six was a banner year for the U.S. economy. The Nation's output of goods and services rose \$58 billion to \$739 1/2 billion and a further but more moderate rise is expected this year. Farmers shared in this advance as realized net farm income in 1966 climbed to \$16.3 billion--up 15 percent from 1965 to the highest level in nearly 20 years. Prospects for 1967 also appear good, although realized net farm income may decline slightly from last year's high level.

Prices received by farmers in 1966 averaged about 7 percent higher than a year earlier, despite a 1 percent increase in the volume of farm marketings. As a result, cash receipts climbed \$3.7 billion to \$42.9 billion, the highest on record. Most of the gain came from higher livestock prices and increased marketings, although slightly higher crop prices also contributed to the rise.



*EXCLUDING INVENTORY CHANGE; INCLUDING GOVERNMENT PAYMENTS
1966 PRELIMINARY

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Farmers also paid higher prices for the items they purchased in 1966. The index of prices paid including interest, taxes, and wages rose 4 percent above 1965, somewhat more than the usual increase. Higher prices and larger purchases boosted total production expenses to \$33.2 billion--up \$2.5 billion from 1965.

Total farm output in 1966 averaged nearly 2 percent below a year earlier. Production of livestock remained about unchanged from a year earlier as increases in hogs and poultry offset declines in cattle and calves and milk production. Although liveweight production of cattle and calves was below year earlier levels, slaughter was up due to reduced inventories. Crop production in 1966 was 3 percent below the 1965 record since cotton production declined more than one-third, and poor weather conditions hampered production of a number of other major crops.

The substantial rise in aggregate economic activity in 1966 increased the flow of disposable income to consumers by about 7 1/2 percent to \$505 billion. Consumers responded with substantially larger purchases of durable goods, non-durable goods, and services. Expenditures for food rose 7 percent to \$91 billion and accounted for about 18.1 percent of disposable personal income, down slightly from last year to a new low rate. But higher overall retail prices siphoned off a larger than usual amount of the rise in consumer income. Retail food prices jumped 5 percent in 1966, the largest annual increase since 1951. Prices were higher particularly for meats, eggs, dairy products, and bread. Total per capita food consumption rose about 1 percent, but retail food prices also rose reflecting the strength of consumer demand. Retail prices in coming months will likely stabilize as large increases in supplies of poultry, eggs, citrus products, and pork are expected in the first half of 1967.

Inflationary pressures also developed in other parts of the economy. About 40 percent of the \$58 billion rise in gross national product in 1966 was due to higher prices throughout the economy. For the year, prices rose about twice the average yearly gain from 1960-65. Prices rose throughout the year, although the largest increases were recorded in the first 2 quarters. By the end of the year, wholesale prices had declined. The uptrend in retail prices had slowed, and food prices had declined. Both of these developments were influenced significantly by lower farm product prices.

The high level of economic activity in the U.S. induced a substantial rise in imports of goods and services which more than offset a modest gain in exports. Exports of farm commodities, which account for about a fourth of total merchandise exports, were up 11 percent in calendar 1966. Much of the rise was due to increased shipments of wheat and feed grains, which rose to record levels last year. Imports of farm products rose 10 percent in 1966.

Prices for farm products in total are expected to average close to fourth quarter 1966 levels through the first half of this year. Sizable increases in supplies of fed beef, hogs, turkeys, and eggs will likely hold livestock prices below year earlier levels. In the last half of the year, supplies of fed beef will likely average smaller and hog slaughter is expected to approach year-

earlier levels. Crop prices are expected to average near year-earlier levels through June. However, if farmers expand grain acreage under new programs, and weather is normal, increased production will likely result in lower prices after mid-year. A preliminary planting intentions survey (as of December 1) indicated farmers plan to expand corn acreage by 7 percent and soybean acreage by 8 percent in 1967. The December Crop Report reported a record winter wheat crop under way--over 1/4 more acres planted than a year earlier.

GENERAL AGRICULTURAL SITUATION

Producer prices and incomes in 1966 rose to their highest levels in well over a decade. Net realized farm income climbed to \$16.3 billion--15 percent above a year earlier and nearly one-third higher than the 1960-64 average (table 2). Prospects for 1967 also appear good, although net farm income will likely be slightly below the high 1966 level.

Cash receipts from farm marketings reached a record \$42.9 billion in 1966. Higher livestock prices and increased marketings accounted for three-fourths of the rise in cash receipts, and higher crop prices increased revenue from crop sales. Larger direct Government payments also contributed to higher farmer incomes in 1966. Payments to participators under the 1966 Cotton and Wheat Stabilization Programs boosted total direct payments to \$3.3 billion in 1966--an increase of about \$800 million over a year earlier.

Realized gross farm income hit a new high. Cash receipts, Government payments, and non-money income totaled a record \$49.5 billion in 1966, up \$4.6 billion from 1965. However, partly offsetting was a \$2 1/2 billion increase in production expenses, which brought the total for the year to \$33.2 billion.

Average realized net income per farm is estimated at a record \$5,024 in 1966--nearly one-fifth above a year earlier. Per capita disposable income of the farm population was up 11 percent from a year earlier to \$1,731 in 1966--two-thirds of the level of disposable income earned by the nonfarm population.

Prices received by farmers in 1966 averaged 7 percent above a year earlier, despite a 1 percent larger volume of marketings. Although livestock prices declined during the year from the first quarter peak, they averaged 12 percent above 1965. Factors apparently responsible for this rise were reduced per capita supplies of pork and dairy products, sharply increased consumer incomes, and larger military takings. Crop prices for the year averaged only a shade above 1965. Prices of most major crops were lower in the first half, and gained strength after mid-year from expanding demand and adverse weather.

Prices received by farmers in the fourth quarter of 1966 were down 3 percent from the previous 3 months, but averaged over 3 percent above the same

Table 2.--Gross and net income from farming, 1950 to 1966 annually and 1965-66 quarterly

Year	Cash receipts		Realized : nonmoney income	Govern- ment : payments	Realized : gross farm income	Farm : production expenses	Farm opera- tors' net realized income	Net change : in farm inventory	Farm operators' total net income 1/
	Marketings : Crops	Livestock and products							
----- Billion dollars -----									
1950	28.5	12.4	16.1	0.3	32.3	19.4	12.9	0.8	13.7
51	32.9	13.2	19.6	.3	37.1	22.3	14.8	1.2	16.0
52	32.5	14.3	18.2	.3	36.8	22.6	14.1	.9	15.1
53	31.0	14.1	16.9	.2	35.0	21.3	13.7	-.6	13.1
54	29.8	13.6	16.3	.3	33.6	21.6	12.0	.5	12.5
1955	29.5	13.5	16.0	.2	33.1	21.9	11.2	.2	11.5
56	30.4	14.0	16.4	.6	34.3	22.4	11.9	-.5	11.4
57	29.7	12.3	17.4	1.0	34.0	23.3	10.7	.6	11.3
58	33.5	14.2	19.2	1.1	37.9	25.2	12.7	.8	13.5
59	33.5	14.6	18.9	.7	37.5	26.1	11.4	.1	11.5
1960	34.0	15.1	18.9	.7	37.9	26.2	11.7	.3	12.0
61	34.9	15.5	19.4	1.5	39.6	27.0	12.6	.3	12.9
62	36.2	16.2	20.0	1.7	41.0	28.5	12.5	.6	13.1
63	37.2	17.3	19.9	1.7	42.1	29.6	12.5	.6	13.1
64	36.9	17.1	19.8	2.2	42.3	29.4	12.9	-.8	12.1
1965	39.2	17.3	21.9	2.5	44.9	30.7	14.2	1.0	15.2
1966 2/	42.9	18.2	24.7	3.3	49.5	33.2	16.3	-.2	16.1
1965: 3/									
I	37.3	17.0	20.3	n.a	42.9	30.0	12.9	0	12.9
II	39.7	17.7	22.0	n.a	45.4	30.8	14.6	.9	15.5
III	39.7	17.4	22.3	n.a	45.5	30.9	14.6	1.5	16.1
IV	40.0	17.5	22.5	n.a	45.9	31.2	14.7	1.4	16.1
1966: 2/									
I	42.2	n.a.	n.a.	n.a.	48.4	31.9	16.5	.6	17.1
II	42.2	n.a.	n.a.	n.a.	48.7	32.5	16.2	.2	16.4
III	43.0	n.a.	n.a.	n.a.	49.8	33.8	16.0	-.5	15.5
IV	44.1	n.a.	n.a.	n.a.	51.1	34.6	16.5	-1.2	15.3

1/ Details may not add to totals due to rounding.

2/ Preliminary

3/ Quarterly data seasonally adjusted at annual rates.

n.a. not available

period a year earlier (table 3). Livestock prices, down from the first quarter peak, continued to average above 1965 levels. However, hog prices in the fourth quarter averaged nearly one-fifth lower in response to 10-15 percent larger marketings compared with a year earlier. Fourth quarter broiler prices were also lower, by more than a tenth, as a result of substantially larger supplies. Crop prices in the last 3 months of 1966 averaged lower seasonally, but were 4 percent above a year earlier. Prices received for cotton averaged nearly one-fourth below the same period a year earlier. The only other major crops averaging below appreciably October-December 1965 were dry beans, and several citrus items.

Prices of farm products continued to decline slightly from December to January. But for the first quarter of 1967, they are expected to average close to the fourth quarter 1966 level. Egg prices were down sharply in January for the second consecutive month as a result of substantially increased marketings. Turkey prices were off in January, due mainly to large supplies for this time of year. Dairy product prices in January declined slightly more than usual from year-end levels. However, broiler prices recovered in the opening weeks of 1967 from the extremely depressed December levels. Prices for cattle and hogs were also higher.

Producer prices for crops were slightly lower in January. Prices for cotton and some fresh vegetables were weaker. Citrus continued to display greater than seasonal declines. The estimated one-fourth larger citrus crop, harvest of which got under way in volume late in December, is expected to continue to exert downward pressure on citrus prices. Feed grain prices have maintained considerable strength in recent months as a result of continued heavy domestic utilization. Prices received for corn in January averaged \$1.28 per bushel--the highest for that month since 1955. Although soybean prices have been strong in recent months, the current supply-demand balance will likely hold prices in the first half of 1967 below extremely high year-earlier levels. Heavy disappearance has strengthened potato prices in recent months.

Prices for farm products during 1967 are expected to average only slightly below last year. The index of prices received by farmers in 1966 was 265 (1910-14=100). Although present indications point to a less buoyant first half, developments in the latter part of the year could be more favorable to livestock producers. If acreage expands as expected, and weather is normal, crop prices could decline in the last half of the year, although incomes will likely be well maintained through larger marketings.

Total farm output in 1966 declined nearly 2 percent below record 1965 levels (table 4). Production of livestock was unchanged, although changes occurred within the total. Increases in hogs, chicken, and turkey offset declines in cattle and calves and milk production. Although liveweight production of cattle and calves was below year-earlier levels, slaughter was up due to reduced inventories.

Crop production in 1966 was down 3 percent from the 1965 record level, but equaled the 1963 crop which was the second largest on record. Cotton production was down more than one-third as a result of sharply reduced planted

Table 3.--Index numbers of agricultural prices and marketings 1950-66 annually, and 1965-66 quarterly

Period	Prices received by farmers, 1910-14=100				Prices paid, interest, taxes, and wage rates 1910-14=100				Parity		Volume of farm marketings, 1957-59=100			
	Total		Crops		Livestock: and		Total		Family living		Production		Total	
1950	258	233	280	256	246	246	276	270	251	251	84	96	83	82
1951	302	265	336	282	268	273	278	274	250	250	107	97	84	85
1952	288	267	306	287	271	274	287	282	257	257	100	88	88	86
1953	255	240	268	277	269	256	277	287	264	264	92	95	92	90
1954	246	242	249	278	270	255	278	288	266	266	89	92	93	93
1955	232	231	234	276	270	251	276	274	250	250	84	96	96	96
1956	230	235	226	278	274	250	278	282	257	257	83	97	99	101
1957	235	225	244	287	282	257	287	287	264	264	82	88	94	99
1958	250	223	273	294	287	264	294	287	264	264	85	104	101	98
1959	240	222	256	298	288	266	298	288	266	266	81	108	105	103
1960	238	222	253	300	290	265	300	290	265	265	80	112	107	104
1961	240	227	251	302	291	266	302	291	266	266	79	110	109	108
1962	244	232	255	307	295	270	307	295	270	270	80	112	111	110
1963	242	239	245	312	298	273	312	298	273	273	78	119	116	114
1964	237	239	236	313	300	270	313	300	270	270	76	118	118	118
1965	248	232	261	321	306	276	321	306	276	276	77	120	119	118
1966	265	235	292	334	315	285	334	315	285	285	80	120	120	120
1965:														
I	238	236	240	318	303	273	318	303	273	273	75	85	100	112
II	250	244	255	322	306	277	322	306	277	277	78	61	92	115
III	250	226	271	322	306	277	322	306	277	277	77	126	122	118
IV	252	221	279	323	307	277	323	307	277	277	78	210	162	126
1966:														
I	267	230	300	329	312	282	329	312	282	282	81	99	106	111
II	264	239	286	333	314	283	333	314	283	283	79	67	96	118
III	270	241	294	335	317	287	335	317	287	287	80	121	121	121
IV	261	231	287	337	318	286	337	318	286	286	78	195	158	129

U.S. Department of Agriculture

acreage under the 1966 Cotton Program and slightly lower yields. Lower yields also explained most of the decline in production of other major crops, although a slightly smaller harvested acreage also contributed to the decline. Production of corn, grain sorghum, and soybeans was above year-earlier levels, and the potato crop was a record high.

Total farm output in 1967 may exceed 1966 levels by a considerable amount. Livestock supplies during the first half of 1967 are expected to be well above a year earlier. Gains in the first half are expected for fed beef, hogs, milk poultry and eggs.

On January 1, there were 7 percent more cattle and calves on feed in 32 States, compared with the same period a year earlier. Feeders reported intentions to market 8 percent more fed cattle during the first 3 months of 1967 compared with a year earlier. However, increases in fed beef will be partly offset by smaller supplies of lower quality beef.

An estimated 9 percent larger June-November 1966 pig crop indicates hog slaughter will likely average above year-earlier levels during the first half of 1967. However, hog farmers reported intentions to expand the 1967 spring pig crop by only 3 percent. If these intentions are realized, hog slaughter in the last half of the year is expected to approach year-earlier levels.

Turkey producers have indicated they plan to produce 8 percent more turkeys this year, with much of the increase expected in the first half, prior to the traditional heavy marketing period. Increases in broiler supplies during the first quarter of 1967 are expected to be moderate. However, the large buildup under way in layers (312 million on farms January 1, 1967--3 percent above a year earlier) is expected to lead to the largest increase in egg production in over a decade.

Milk production in the first quarter of 1967 will likely average above a year earlier. Large increases in output per cow are expected to more than offset the drop in cow numbers.

With total crop output down in 1966, and domestic and foreign utilization up, stocks of total crop products are at their lowest year-end levels since 1957. Based on expectations of continued growth in domestic and foreign demand, plans have been made to bring into production some of the acreage previously diverted. Under new provisions of the feed grain program producers are expected to expand feed grain acreage significantly. In a preliminary planting intentions survey, farmers in 25 major corn producing States reported intentions to plant 7 percent more acreage to corn in 1967. A 7 percent increase in corn acreage would amount to about 5 million more acres than the 66 million planted in 1966. Farmers also reported intentions to increase acreage planted to soybeans by about 8 percent above 1966. In addition, the 1967 wheat acreage allotment of 68.2 million acres is one-third larger than in 1966. The December Crop Report estimated acreage seeded to winter wheat for harvest this year at 54.1 million acres, up 26 percent from a year earlier. With yields forecast at 23.7 bushels per acre, this would be

Table 4.---Farm production: Index numbers of total farm output, gross production of livestock and crops, United States 1/

Item	(1957-59=100)															
	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966				
Farm output	96	97	95	102	103	106	107	108	112	112	115	113				
All livestock and livestock products <u>3/</u>	99	99	97	99	104	102	106	107	111	113	111	111				
Meat animals	103	100	96	98	106	103	106	108	114	116	110	111				
Dairy products	99	101	101	100	99	101	103	104	103	105	104	101				
Poultry and eggs	86	94	95	101	104	104	112	111	115	118	122	128				
All crops <u>3/</u>	96	95	93	104	103	108	107	107	112	109	116	112				
Feed grains	86	85	93	101	106	109	99	100	110	97	111	111				
Hay and forage	98	94	101	102	97	103	102	105	105	105	112	110				
Food grains	83	87	82	121	97	115	106	98	102	114	116	118				
Vegetables	96	102	98	102	100	103	110	108	108	103	109	110				
Sugar crops	86	86	98	96	106	102	115	119	153	156	138	139				
Cotton	120	108	89	93	118	116	116	121	125	124	121	78				
Tobacco	127	126	96	100	104	112	119	134	135	129	107	107				
Oil crops	78	92	91	111	98	105	122	123	128	128	154	165				

1/ For historical data and explanation of indexes, see, Changes in Farm Production and Efficiency, USDA Statistical Bulletin No. 233.

2/ Preliminary indexes for 1966 based on December 1966 "Crop Production" report and other releases of the Crop Reporting Board, SRS.

3/ Includes other products not included in the separate groups shown.

Economic Research and Statistical Reporting Services.

the largest winter wheat crop on record. In total, 25 to 30 million acres of crop land could return to production in 1967. Assuming normal weather conditions, crop output could increase substantially for the year.

The value of retail food store sales in fourth quarter 1966 averaged only slightly above a year earlier. Sales earlier in the year had run considerably stronger. For all of 1966, sales averaged 6 percent above a year earlier. Sales by eating and drinking places were strong throughout the year; they averaged 9 percent above 1965. Total food expenditures in October-December 1966 slowed to a rate 4 percent above the fourth quarter 1965. For the year as a whole, total food expenditures totaled \$91 billion--up 7 percent from 1965.

Fourth quarter food expenditures of \$92 billion (annual rate) amounted to 17.8 percent of the \$518 billion disposable income. For the year, 18.1 percent of income was used to buy food, compared with 18.2 percent in 1965.

Retail food prices in fourth quarter 1966 declined slightly from the high point reached in August. Retail food prices advanced 5 percent in 1966, the largest annual increase since 1951. Price strength was most noticeable for meats, eggs, dairy products, and bread. Despite higher prices, per capita food consumption averaged nearly 1 percent above 1965. Lower per capita consumption of most dairy products, eggs, and pork accompanied higher prices, but consumption of beef, poultry, vegetable oils, and potatoes was up.

Food expenditures in 1967 are expected to rise above the 1966 level, but the rate of increase is likely to fall short of the 1966 gain. With a further healthy gain in disposable income, the percentage of income spent for food likely may decline slightly. Prices this year are expected to remain relatively stable but for the year likely will average slightly above 1966. Per capita food consumption again is expected to increase significantly. Increases are expected to be largest for pork, eggs, and citrus fruits. Reduced beef supplies in the second half year probably will strengthen cattle prices in the year.

Domestic demand for feed and other nonfood farm products is expected to be strong again in 1967. For the first half of the year--despite lower product-feed price ratios compared with last season--feed use will likely continue heavy as farmers feed a larger number of livestock production units.

Expansion in crusher demand for soybeans has been slower than a year ago. Most of the demand growth has been coming from soybean meal requirements resulting in some stock accumulation of soybean oil.

Vigorous military and consumer demand for textile products continues to expand the domestic mill consumption of cotton. Cotton products are also benefiting from a more competitive pricing policy.

Consumption of cigarettes by U.S. smokers will likely expand further in 1967 as the adult population increases.

Export markets continue to be a major source of demand for farm products. Exports of U.S. agricultural products were estimated at \$1,951 million during the October-December quarter, up 3 percent from a year earlier (table 5). Among the exports rising substantially were tobacco, wheat and flour, sorghum grain, hides and skins, vegetables and preparations, cotton, and soybeans. The total value of feed grains, fruits and preparations, dairy and poultry products, protein meal, vegetable oils, and rice declined.

Wheat and wheat flour exports (which account for around 20 percent of the total value of agricultural exports) were up more than a fifth. Feed grains continued to be in strong demand in Japan and in Western Europe. However, increased competition from other major grain exporting countries has held the value of U.S. feed grain exports in fiscal 1967 below year-earlier levels.

The value of soybean exports averaged over a tenth higher in the October-December quarter compared with a year earlier. Despite higher prices, demand for U.S. soybeans has been up sharply in Japan, Spain, and Israel.

Exports of cotton were 19 percent higher. Foreign demand has recently been very strong in Free-World countries while supplies have been lower in other major production countries.

Table 5.--U.S. agricultural exports, value of major commodities, October-December 1965 and 1966

Commodity	October-December		Percentage change <u>2/</u>
	1965	1966 <u>1/</u>	
	Mil. dol.	Mil. dol.	Percent
Cotton, excluding linters	140	167	19
Dairy products	42	20	-54
Feed grains, excluding products	351	308	-12
Fruits and preparations	86	79	-8
Soybeans	271	302	11
Tobacco, unmanufactured	150	191	28
Vegetables and preparations	43	50	16
Wheat and flour	306	372	22
Other	498	462	-7
Total exports	1,887	1,951	3

1/ Preliminary.

2/ Change computed from unrounded data.

U.S. Department of Agriculture.

Tobacco exports averaged more than a fourth larger in the October-December quarter compared to a year earlier. Factors responsible for the rise were quality improvement in the flue-cured crop, the export payment program, and the widespread embargo on Rhodesian tobacco.

Imports of agricultural commodities for consumption were \$1,099 million in October-December 1966, down 11 percent from the same 3 months a year earlier. Declines in coffee and sugar imports explained most of the slower trade. Imports of live animals, apparel wool, and rubber were also lower. Imports of meat and meat products showed modest gains, while imports of hides and skins, grain products, bananas, and tobacco were about the same as a year earlier.

Farm production expenses in 1966 reached a record level of \$33.2 billion, up \$2.5 billion from 1965. Higher expenses were due to both increased purchases and higher prices for most purchased items. The index of prices paid by farmers for production items, interest, taxes, and wage rates in 1966 averaged 4 percent above 1965 (table 2). Among production items of farm origin, feed prices rose 5 percent and feeder livestock prices were up 11 percent as farm product prices rose. However, feeder cattle prices weakened somewhat in the third quarter and have recently remained closely in line with slaughter steer prices.

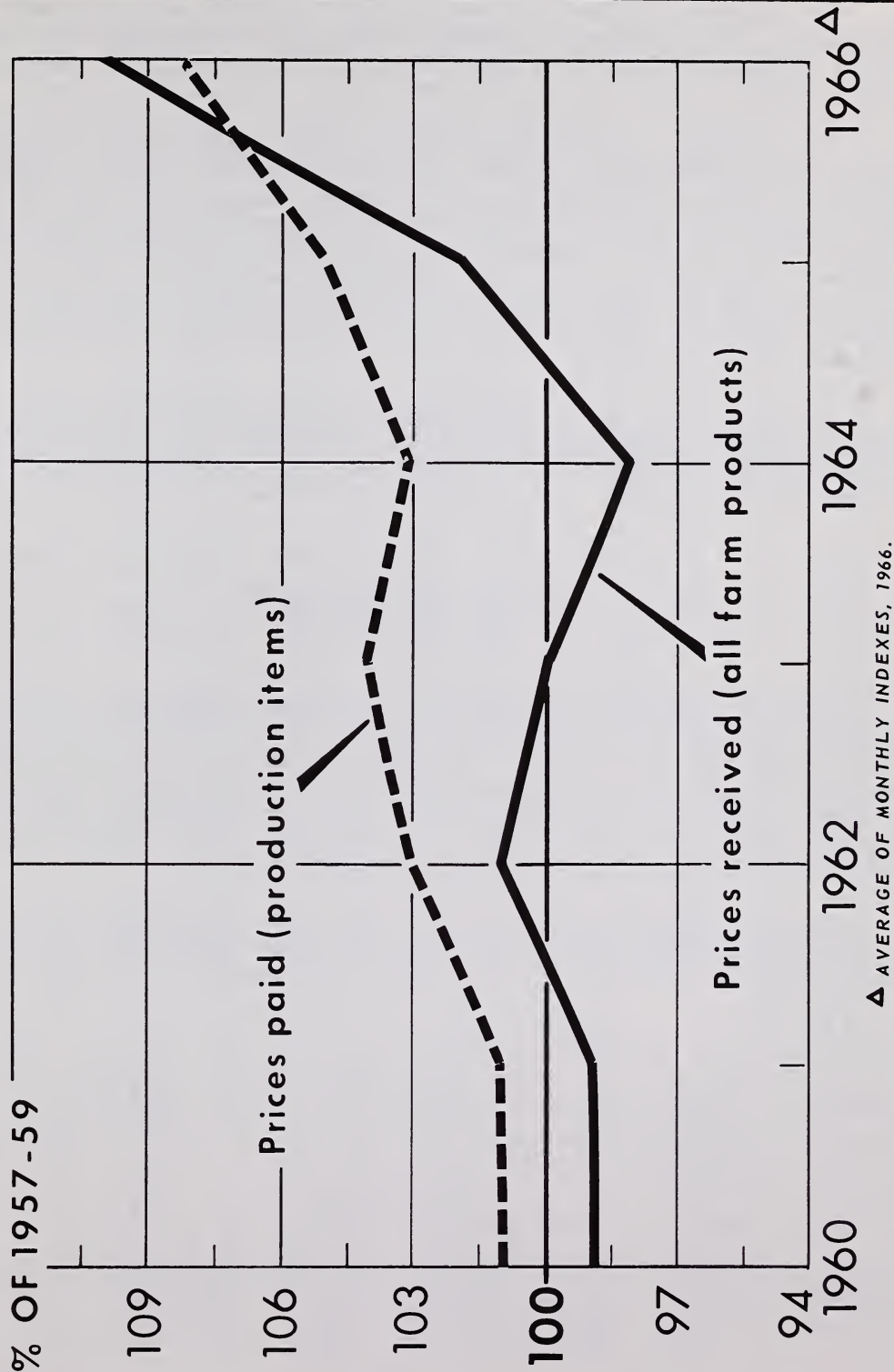
Tight credit conditions were also felt within the farm sector in 1966. Strong competition for loanable funds forced many lending institutions, which supply credit to farmers, to increase interest rates in 1966. However, recently there has been some weakening in interest rates, and prospects are for some slight improvement in credit availability compared with the situation in late 1966.

Farm wage rates in 1966 rose nearly 8 percent over a year earlier. This large rate of increase, compared with an average annual increase of 4 percent in the last decade, was due partly to the tight labor market in the nonfarm sector. On January 1, 1967, the composite farm wage rate stood at \$1.14 per hour, up 8 cents from a year earlier. This contrasts with a rate of \$2.71 per hour for the average manufacturing worker. Thus, despite higher farm wages, farm workers continued to be attracted by increased off-farm employment opportunities in 1966. In 1966 there were about $8\frac{1}{2}$ percent fewer hired workers on farms than in 1965. The outflow of hired farm workers in 1966 offset the rise in farm wage rates.

Continued growth in State and local Government needs pushed per acre taxes 5 percent higher in 1966. As demands for State and local Government services continue to expand, the persistent uptrend in tax rates will likely continue in the future.

The prices paid index for farm machinery and equipment in 1966 averaged 445 (1910-14=100), up 4 percent from a year earlier. A number of major farm machinery manufacturers raised prices, effective November 1, from 2 to 9 percent depending on the machine involved. This was the second year in a row when farm machinery and equipment prices were boosted sharply in November.

FARM PRICES



The value of shipments of agricultural machinery and equipment, including tractors, was up about 15 percent in 1966 from a year earlier. U.S. Department of Commerce estimates for 1967 point to further increases in shipments, but only about a fourth as large as the rate of increase last year.

The inventory of tractors on farms during the past 2 years has remained stable, after declining for 3 years in a row. However, there has been a marked trend toward more powerful and versatile units. During the first 10 months of 1966, shipments of wheel tractors increased $12\frac{1}{2}$ percent over year-earlier levels, but shipments of total horsepower were up 21 percent. Sales of self-propelled combines, picker-shellers and corn pickerheads for combines have also been increasing sharply in recent years. In addition, new harvesting machinery for specialty crops has recently started to add significantly to increased farm machinery and equipment sales.

The total value of fertilizer products shipped in 1966 was \$1.7 billion, 11 percent above a year earlier and nearly twice the value shipped in 1958. With prospects for another year of favorable farm income and expanded acreage, the demand for fertilizer is expected to grow further in 1967.

FACTORS AFFECTING DEMAND
FOR FARM PRODUCTS

Economic expansion is expected to continue in 1967 but the rate of increase will probably be more moderate compared with the \$58 billion rise in gross national product in 1966. The public sector will provide considerable upward thrust and consumer demand will likely expand further. However, private investment demand will probably increase much less than during the past two years. Prospects for slower growth in investment outlays account for much of the anticipated slower rise in overall economic activity.

Nineteen sixty-six ended with economic activity rising but less vigorously than earlier in the year. Gross national product rose \$13 $\frac{3}{4}$ billion $\frac{1}{4}$ in the fourth quarter to \$759 billion and brought the average for the year to \$739 $\frac{1}{2}$ billion (table 6). About \$4 $\frac{1}{2}$ billion of the fourth quarter rise represented larger additions to inventory stocks. Inventories were growing at a rate of about \$14 $\frac{1}{2}$ billion in the fourth quarter compared with a rate of about \$10 billion in the third quarter. Final sales (GNP excluding the change in business inventories) rose slightly more than \$9 billion in the fourth quarter. With the exception of the second quarter of 1966, this was the smallest quarterly rise since the fourth quarter of 1964.

$\frac{1}{4}$ All data in this section are seasonally adjusted annual rates unless otherwise specified.

Table 6.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	Year	1965				1966				
		1966 1/	I	II	III	IV	I	II	III	IV 2/	
Gross National Product	Bil. dol.	739.5	681.2	660.8	672.9	686.5	704.4	721.2	732.3	745.3	759.1
Personal income	Bil. dol.	580.4	535.1	518.0	527.6	541.9	552.8	564.6	573.5	585.2	598.1
Disposable personal income 2/	Bil. dol.	505.3	469.1	453.2	461.0	476.2	486.1	495.1	499.9	507.8	518.2
Personal consumption expenditures	Bil. dol.	465.0	431.5	418.9	426.8	435.0	445.2	455.6	460.1	469.9	474.4
Durable	Bil. dol.	69.4	66.1	65.1	64.4	66.7	68.0	70.3	67.1	70.2	70.1
Nondurable	Bil. dol.	206.1	190.6	184.5	189.4	191.4	197.0	201.9	205.6	208.1	208.7
Services	Bil. dol.	189.5	174.8	169.3	173.0	176.9	180.2	183.4	187.4	191.5	195.6
Personal saving	Bil. dol.	26.9	25.7	22.8	22.4	29.0	28.5	26.7	26.6	24.5	29.9
Net government receipts	Bil. dol.	---	139.4	137.9	140.5	136.7	142.6	149.7	156.4	159.6	---
Government purchases	Bil. dol.	153	136.2	131.6	134.3	137.7	141.2	145.0	149.0	156.2	161.9
Deficit or surplus (on income and product account)	Bil. dol.	---	3.2	6.4	6.1	-1.0	1.4	4.7	7.3	4.0	---
Gross private domestic investment	Bil. dol.	116.5	106.6	103.8	103.7	106.7	111.9	114.5	118.5	115.0	118.0
Fixed investment	Bil. dol.	105.1	97.5	94.4	96.0	98.0	101.5	105.6	106.2	105.1	103.6
Change in business inventories	Bil. dol.	11.4	9.1	9.5	7.6	8.7	10.4	8.9	12.3	9.9	14.4
Expenditures for plant and equipment	Bil. dol.	3/60.56	51.96	49.00	50.35	52.75	55.35	58.00	60.10	61.25	3/62.60
Corporate profits (before taxes)	Bil. dol.	81.8	75.7	74.5	74.5	75.0	78.7	82.7	82.8	81.9	---
Net exports of goods and services	Bil. dol.	4.9	7.0	6.4	8.2	7.1	6.1	6.0	4.7	4.2	4.8
Balance of payments (on liquidity basis) 4/	Mill. dol.	---	-1,337	-2,788	904	-2,136	-1,328	-2,204	-564	-872	---
Total civilian employment 5/	Millions	74.1	72.2	71.4	71.9	72.4	73.0	73.6	73.7	74.2	74.8
GNP implicit price deflator	1958=100	114.2	110.9	110.1	110.7	111.0	111.6	112.6	113.8	114.7	115.6
Per capita disposable personal income (1958 prices)	Dollars	2,294	2,214	2,162	2,181	2,241	2,270	2,287	2,278	2,294	2,312

1/ Preliminary.

2/ Excludes interest paid by consumers and net personal transfers to foreigners.

3/ Estimates based on anticipated capital expenditures as reported by business.

4/ Equals changes in liquid liabilities to foreign official holders, other foreign holders, and change in official reserve assets.

5/ U.S. Department of Labor.

Departments of Commerce, Agriculture, and Securities and Exchange commission

The overall level of prices continued to rise in the fourth quarter of 1966. However, the rate of increase was about the same as in the third quarter and somewhat below rates in the first two quarters of the year. The implicit price deflator for gross national product ^{2/} rose 0.8 percent to 115.6 (1958=100) compared with increases of 0.9 percent and 1.1 percent during the first two quarters of 1966. The anticipated slower rise in economic activity in 1967 will probably aid in reducing inflationary pressures which developed in 1966. In addition, it is unlikely that the sharp increases in food prices will be repeated this year.

Spending by Federal, State and local Governments will be a major source of demand expansion in 1967. Fiscal proposals in the President's budget message to Congress, which includes the Administration's fiscal plans with respect to both spending and receipts for the next year and a half, will stimulate economic activity at least through the first half of 1967. The budget message contains three measures of Federal receipts and expenditures: (1) Administrative budget receipts and expenditures, (2) the consolidated cash statement of Federal transactions, and (3) the Federal sector of the national income accounts (table 7).

The most common measure of Federal transactions is the administrative budget. Spending under this concept is expected to rise \$19.7 billion to \$126.7 billion in fiscal 1967 and to \$135.0 billion in fiscal 1968. Estimates of administrative budget receipts result in deficits of \$9.7 billion in fiscal 1967 and \$8.1 billion in fiscal 1968.

Table 7.--Three measures of Federal transactions,
fiscal year 1967

Measure	Unit	Total expenditures	Total receipts	Deficit (-) or Surplus (+)
Administrative budget.....	Bil. dol.	126.7	117.0	- 9.7
Cash budget.....	Bil. dol.	160.9	154.7	- 6.2
National income accounts budget.....	Bil. dol.	153.6	149.8	- 3.8

Although these measures of spending and receipts are useful ones, the national income accounts budget is better suited for analyzing the direct impact of Federal fiscal activity on the Nation's current flow of income and output. This budget differs in several important respects from the administrative budget. The Federal sector of the national income accounts

^{2/} Represents GNP in current prices divided by GNP in constant 1958 prices.

Table 8.--Federal receipts and expenditures in the national income accounts, 1959-68

Description	(Fiscal years in billions of dollars)												
	Actual												Estimates
	1959	1960	1961	1962	1963	1964	1965	1966	First: 1967	Second: 1967	half 2/	half 2/	1968
RECEIPTS, NATIONAL INCOME BASIS													
Personal tax and nontax	38.2	42.5	43.6	47.3	49.6	50.7	51.3	57.9	64.9	66.1	65.5	76.8	76.8
Corporate profits tax accruals	21.5	22.3	20.3	22.9	23.5	25.6	27.8	30.7	30.6	34.0	32.3	35.3	35.3
Indirect business tax and nontax accruals	11.9	13.2	13.3	14.2	15.0	15.6	16.9	15.9	16.4	16.6	16.5	16.9	16.9
Contributions for social insurance	13.8	16.7	18.1	19.9	22.1	23.6	24.6	28.1	34.0	37.0	35.5	38.1	38.1
Total receipts, national income basis 1/	85.4	94.8	95.3	104.2	110.2	115.5	120.6	132.6	145.9	153.7	149.8	167.1	167.1
EXPENDITURES, NATIONAL INCOME BASIS													
Purchases of goods and services	54.7	52.7	55.5	60.9	63.4	65.7	64.3	71.7	80.8	86.4	83.6	91.9	91.9
Transfer payments	21.6	22.4	25.6	27.2	28.5	29.6	30.4	34.3	38.0	41.6	39.8	46.6	46.6
Grants-in-aid to State and local governments	6.2	6.8	6.9	7.6	8.4	9.8	10.9	12.9	15.3	14.3	14.8	16.7	16.7
Net interest paid	5.9	7.0	6.8	6.8	7.5	8.1	8.5	9.1	9.8	10.2	10.0	10.5	10.5
Subsidies less current surplus of government enterprises	2.4	2.3	3.2	3.8	3.6	3.8	4.1	4.5	5.0	5.8	5.4	3.5	3.5
Total expenditures, national income basis 1/	90.9	91.3	98.0	106.4	111.4	116.9	118.3	132.3	148.9	158.3	153.6	169.2	169.2
SURPLUS (+) OR DEFICIT (-)													
NATIONAL INCOME BASIS	-5.5	+ 3.5	-2.7	-2.1	-1.2	-1.4	+ 2.3	+ 3	-3.0	-4.6	-3.8	-2.1	-2.1

1/ Totals may not add due to rounding.

2/ Computed by the Department of Agriculture from estimates of fiscal year totals and quarterly data for the last two quarters of calendar 1966.

Actual data for 1959-66 are based on the quarterly estimates prepared by the Department of Commerce. Data for 1967 and 1968 are based on estimates by the Bureau of the Budget in cooperation with the Department of Commerce.

includes transactions of trust funds such as the social security and highway trust funds which are excluded from the administrative budget. It excludes transactions involving lending and borrowing which represent neither production of current output nor income. In addition, receipts are recorded on an accrual basis rather than a collection basis and most purchases of goods and services are recorded on a delivery basis rather than a payment basis.

Under the national income accounts budget, Federal spending is scheduled to rise \$21 billion to \$154 billion in the fiscal year ending July 1, 1967, up 16 percent from fiscal 1966 (table 8). Since half of fiscal 1967 is already history, it is possible to estimate implied spending levels for the first half of calendar 1967. Total spending during January-June 1967 is scheduled to rise 6 percent from the last half of 1966 (first half of fiscal 1967) to \$158 billion. Total spending rose 10 percent from the first half to the second half of calendar 1966.

Most of the rise in total spending will be due to larger purchases of goods and services which are the only category of Government spending directly included in gross national product. Defense spending for goods and services accelerated during the last half of 1966 and pushed total Federal purchases for goods and services up \$7.8 billion from the first half level of \$73.0 billion. Defense purchases of goods and services will continue to push up total purchases of goods and services in the first half of 1967 but probably not as much as during the last half of 1966. The estimated level of total purchases of goods and services in the first half of 1967 is \$86 billion, up \$5½ billion from the last half of 1966.

Plans for the year beginning July 1, 1967 (fiscal 1968), indicate a further rise in total spending. Defense purchases of goods and services will probably continue to rise but at a diminishing rate. If proposals to raise social security benefits are enacted by Congress, transfer payments to persons will rise substantially and, thus, add to the flow of income to consumers.

Despite rising revenues, it is expected that deficits will be incurred in both fiscal 1967 and fiscal 1968. The President has proposed that revenues be supplemented by a 6 percent surcharge on personal and corporate tax liabilities effective July 1, 1967. The proposed measure includes an exemption for low-income families. If adopted by Congress, it is estimated that the surcharge will increase annual revenues \$5.8 billion when fully effective.

The long upward trend in State and local Government outlays will continue in 1967. In 1966, spending for goods and services rose steadily and in the fourth quarter averaged \$79½ billion, up 11 percent from a year earlier. This trend is likely to continue this year in view of the constantly increasing demands for roads, schools, hospitals, and other services provided by State and local governmental units.

There is considerable evidence that the capital spending boom is slowing down. Investment outlays for plant and equipment will probably not rise as much in 1967 as they did in 1965 and 1966. Private nonresidential fixed

investment expenditures rose 15 percent in 1965 and 14 percent in 1966. In the fourth quarter purchases of nonresidential structures and producers' durable equipment rose \$1.4 billion to \$81.7 billion, up $10\frac{1}{2}$ percent from a year earlier. Nonresidential construction activity declined slightly in the fourth quarter as the effects of high interest rates, shortages of mortgage credit, and the temporary suspension of accelerated depreciation allowances continued to be felt. Expenditures for producers' durable equipment continued to rise in the fourth quarter but the increase was much less than earlier in the year. Higher capital goods prices and interest rates, temporary suspension of the investment tax credit, and a leveling in profits are apparently influencing spending for machinery. However, it is also possible that longer term expansion plans are being completed and existing capacity is adequate.

The slowdown in capital spending is expected to continue this year. The last OBE-SEC survey, taken in late October and November 1966, of investment plans points to a further expansion in plant and equipment spending during the first half of 1967 but at a much slower rate than in 1966. In the first half of 1967, outlays are expected to rise 3 percent from the second half of 1966 to \$63 $\frac{3}{4}$ billion (table 9). ^{3/} Expenditures for new plant and equipment rose 5 percent in the second half of 1966 and 9 percent in the first half. The next OBE-SEC survey, which will cover spending plans for all of 1967, will be released sometime in March.

Table 9.--Percent change in expenditures for new plant and equipment by major industry groups, semi-annually 1964-second half 1967 ^{1/}

Industry group	: 1964-I	: 1964-II	: 1965-I	: 1965-II	: 1966-I	: 1966-II
	: to	: to	: to	: to	: to	: to
	: 1964-II	: 1965-I	: 1965-II	: 1966-I	: 1966-II	: 1967-I
	:	:	:	:	: 2/	: 2/
	: Percent	Percent	Percent	Percent	Percent	Percent
All industries.....	8.5	6.4	8.8	9.3	4.9	3.0
Manufacturing.....	10.8	8.5	11.5	11.1	5.6	1.7
Durable goods.....	10.6	7.3	14.2	11.6	7.4	2.8
Nondurable goods....	10.7	9.9	8.8	10.7	3.7	.6
Nonmanufacturing.....	7.1	4.8	6.8	8.0	4.1	4.1

^{1/} Fourth quarter of 1966 and first half of 1967 based on anticipations reported by business in late October and November.

^{2/} I- First half of year, II - Second half of year.

OBE-SEC.

^{3/} Expenditures for new plant and equipment based on the OBE-SEC survey do not agree with the nonresidential fixed investment component of GNP, principally because the latter includes agricultural investment, and certain equipment and construction outlays charged to current expense.

Several factors could explain the anticipated slower rise in investment programs. Perhaps one of the most important factors is the leveling in the rate of utilization of industrial capacity since the first quarter of 1966. This reflects not only the substantial additions to productive capacity made during the last five years but also the slower rise in real output since the first quarter of 1966. Gross national product in constant 1958 prices rose an average of \$5½ billion per quarter during the last three quarters. In the five quarters beginning with the fourth quarter of 1964, the average quarterly gain was greater than \$10½ billion. In addition, the uncertain profit outlook and the temporary suspension of the investment tax credit and certain accelerated depreciation allowances are holding back the rate of increase in investment. After tax corporate profits have declined slightly since early 1966 after a long and substantial rise. The recent Administration proposal to put a surtax of 6 percent on corporate tax liabilities is probably also affecting expectations and investment planning.

Residential construction activity dropped sharply in the fourth quarter of 1966 for the second quarter in a row. Homebuilding dropped 12 percent from the third quarter level to \$22 billion and was almost \$7 billion below the first quarter 1966 peak. Tight money conditions continued to be the major factor causing the decline in activity. However, Government actions to ease the shortage of mortgage credit and reduce high interest rates are apparently beginning to yield some results.

Housing starts rose in both November and December of last year although they remained substantially below starts earlier in 1966. Despite the recovery in housing starts during the last two months of 1966, it is still too early to predict the beginning of a true recovery in the homebuilding industry due to the short-run volatility of the statistical data. The longer run outlook for recovery in homebuilding will continue to depend on efforts being made to increase the flow of funds to lending institutions dealing primarily in financing new home construction.

Earnings of private wage and salary workers rose about \$6 million in the fourth quarter of 1966 (table 10), and the increase about equaled gains registered in the previous two quarters. The rise in real output prompted producers to add more people to their work forces, but hours worked held steady in most industries. The unemployment rate held steady at 3.8 percent of the civilian labor force compared with 4.2 percent a year earlier. Wage rates advanced more rapidly compared with other recent quarters. The rise in private wage payments plus increases in government payrolls, medicare benefits, personal interest income, and most other nonwage income items led to a \$13 billion rise in total personal income to \$598 billion in the fourth quarter. The fourth quarter level was over 8 percent above a year earlier and further gains are expected in 1967.

Prospects for slower growth in overall demand in 1967 point to a possible leveling in the unemployment rate as employment increases are expected to about match the expansion in the labor force. Civilian labor force growth in 1967 is expected to approximate last year's rise. However, in order to maintain the unemployment rate at last year's level, nonfarm employment will have to grow even more because of the long-run downtrend in farm employment.

Table 10.--Change from previous quarter in selected measures of personal income, 1964 III, to 1966 IV, seasonally adjusted annual rates

Item	Unit	1964				1965				1966			
		III	IV	I	II	III	IV	I	II	III	IV	I	II
Total personal income	Bil.dol.	8.3	7.2	10.5	9.6	14.3	10.9	11.8	8.9	11.7	12.9		
Wages and salaries:	Bil.dol.	6.6	5.1	5.9	5.5	7.1	10.0	9.2	7.4	9.3	8.3		
Manufacturing	Bil.dol.	2.4	1.1	2.9	1.4	2.2	3.0	3.8	3.0	2.6	2.6		
Non manufacturing	Bil.dol.	2.7	2.6	2.4	3.2	3.1	4.4	3.6	2.7	3.7	3.4		
Government	Bil.dol.	1.5	1.3	.7	1.0	1.7	2.6	1.8	1.8	2.9	2.2		
Transfer payments	Bil.dol.	.2	.4	1.6	-.8	4.2	-1.5	2.1	.2	2.1	3.0		
Personal tax payments	Bil.dol.	2.2	1.8	4.0	1.7	-.9	1.0	2.8	4.1	3.8	2.5		
Disposable personal income	Bil.dol.	6.1	5.4	6.6	7.8	15.2	9.9	9.0	4.8	7.9	10.4		
Disposable personal income in constant (1958) dollars	Bil.dol.	5.3	3.1	4.9	4.9	13.1	7.1	4.5	-.5	4.3	4.8		
Disposable income per capita	Dol.	23	20	27	34	70	43	39	18	33	45		
Disposable income per capita in constant (1958) dollars	Dol.	20	6	22	19	60	29	17	-9	16	18		

In addition, during 1967, union wage contracts, covering at least 3.1 million workers out of 9.5 million workers covered by major collective bargaining agreements, are scheduled for renegotiation. This will be substantially more than the number whose contracts were scheduled for revision during 1966. Most bargaining activity will occur in the automobile, trucking, construction, food processing, and machinery industries. The magnitude of these settlements plus deferred wage increases due workers covered by contracts negotiated in prior years will have a very important impact on overall wage rate developments in 1967. Wages of nonunion workers are also affected by union wage settlements.

Disposable personal income--personal income after taxes--is also expected to rise in 1967 despite the possible 6 percent surcharge on tax bills after July 1, 1967. The surcharge, if approved by Congress, would have a restraining effect on income growth. However, the proposed increase in social security benefits would increase disposable income and largely offset the proposed surcharge.

Disposable personal income rose considerably during 1966 and in the fourth quarter it increased \$10 billion to \$518 billion. The fourth quarter level was over $6\frac{1}{2}$ percent above a year earlier. Personal consumption expenditures also rose during the fourth quarter, but the gain was slightly less than half as large as the increase in disposable income. In most prior quarters, consumers spent almost all of their increased incomes. Consumer spending for goods and services rose \$4 $\frac{1}{2}$ billion to \$474 $\frac{1}{2}$ billion in the fourth quarter, considerably below the average gain in the past four quarters (table 11). The small rise in spending for goods and services resulted in a very large rise in personal saving which rose \$5 $\frac{1}{2}$ billion to almost \$30 billion. Higher prices of consumer goods and services accounted for almost all of the rise in personal consumption expenditures.

Table 11.--Change from previous quarter in major categories of personal consumption expenditures, quarterly 1965 II-1966 IV

(Billions of current dollars)								
Item	1965				1966			
	II	III	IV	I	II	III	IV	
	Bil. <u>dol.</u>	Bil. <u>dol.</u>	Bil. <u>dol.</u>	Bil. <u>dol.</u>	Bil. <u>dol.</u>	Bil. <u>dol.</u>	Bil. <u>dol.</u>	
Total personal consumption expenditures	7.9	8.2	10.2	10.4	4.5	9.8	4.5	
Durable goods	-.7	2.3	1.3	2.3	-3.2	3.1	-.1	
Nondurable goods	4.9	2.0	5.6	4.9	3.7	2.5	.6	
Services	3.7	3.9	3.3	3.2	4.0	4.1	4.1	

Almost all of the $\$4\frac{1}{2}$ billion rise in consumer spending during the fourth quarter was in spending for services. Purchases of durable goods held steady and purchases of nondurable goods rose very little. Spending for food and beverages rose but, once again, less than in the recent past as food prices eased. The rise in purchases of nondurable goods was held down by a decline in spending for clothing and shoes in particular. Prices of these items have been rising rapidly since mid-1966.

Credit conditions, which became progressively tighter throughout most of 1966, showed signs of improving toward the end of the year. Money market rates, which reached their highest level in 40 years in August and September for many short and long-term debt instruments, declined near the end of the year. The three-month Treasury bill rate declined to 5 percent in December from 5.39 percent in October, and long-term Government bonds sold to yield close to 5 percent compared with 5.62 percent in September. Stock market prices began rising near the turn of the year and by the end of January the Dow-Jones industrial average was up 70 points to around 850 (1910=100). The 1966 low was around 745 in early October. The slight easing in credit conditions probably reflects a slight moderation in the very restrictive monetary policy pursued throughout most of 1966 and the slower rise in economic activity recently.

Commercial bank credit rose sharply in December and regained the August peak. Total commercial bank reserves also rose in December and net borrowed reserves reached \$161 million, the lowest level since early in 1966. The money supply and time deposits reflected the easing in monetary conditions.

BALANCE OF PAYMENTS

The U.S. balance of payments deficit (liquidity basis) in 1966 is expected to average close to the 1965 level of \$1.3 billion. The balance on this basis rose from a deficit of \$0.6 billion ^{1/} in the second quarter of 1966 to a deficit of \$0.9 billion in the third quarter (table 12), and for the first nine months of the year averaged close to \$1.2 billion. The third quarter deficit was financed by a decrease in U.S. official reserve assets of \$0.328 billion and an increase in U.S. liquid liabilities to all foreigners of \$0.544 billion. International transactions of the U.S. in the third quarter continued to reflect the effects of Vietnam on military expenditures abroad and domestic economic activity. However, tight domestic credit supplies and a resumption of the uptrend in exports were partially offsetting.

Exports of goods and services in the third quarter rose \$1.5 billion to \$43.8 billion, up 9 percent from a year earlier. Merchandise exports resumed their uptrend and accounted for \$1.3 billion of the rise in total exports of

^{1/} All quarterly data in this section are seasonally adjusted annual rates unless otherwise specified.

goods and services. Almost half of the rise in merchandise exports was in sales of farm commodities. The \$0.2 billion rise in non-merchandise exports was accounted for primarily by increased transportation and travel revenues. Receipts from deliveries under military sales contracts declined. Preliminary data for the fourth quarter indicates a further rise in total exports of goods and services of about \$1.2 billion.

A \$2.2 billion increase in imports of goods and services more than offset the rise in exports in the third quarter and led to a further reduction in the balance of goods and services to \$4.7 billion. The third quarter level was 18 percent above a year earlier. Merchandise imports accounted for about \$1.6 billion of the \$2.2 billion rise in total imports of goods and services. The rest was made up mostly of increased military expenditures abroad, mainly in connection with Vietnam, and increased income payments on foreign investments in the U.S. Preliminary data for the fourth quarter of 1966 indicates a smaller rise in imports of goods and services compared with exports and, hence, a slight improvement in the balance of goods and services. The surplus on goods and services in 1967 should improve. The anticipated slower rise in domestic economic activity is expected to result in a slower rise in imports compared with 1966. Exports are expected to increase with the improved growth rates in some foreign markets.

The outflow of U.S. private capital declined from \$4.4 billion in the second quarter to \$2.9 billion in the third quarter of 1966. Direct investments abroad accounted for most of the decline although long and short term claims reported by U.S. banks also contributed as they changed from an increase in the second quarter to a decrease in the third quarter. Purchases of foreign securities newly issued in the U.S. increased from a relatively low second quarter level. It should be noted that private capital outflows include reinvestment of funds obtained abroad which are included in foreign capital inflows. Any decline in U.S. private capital outflows attributable to a decline in reinvestment of funds obtained abroad has a neutral effect on the balance of payments, and this was the case for part of the reduction in private capital outflows in the third quarter.

Foreign capital inflows fell \$3.8 billion in second quarter to \$1.1 billion and more than offset the decline in U.S. private capital outflows. As noted above, part of the decline was due to a reduction in securities issued by U.S. corporations to finance foreign investments. However, long-term liabilities reported by U.S. banks also fell as did foreign direct investment in the U.S.

Table 12--International transactions of the United States,
1964-66 (excluding military grant-aid)

Item	(Billions of dollars, seasonally adjusted annual rates)											
	1964						1965					
	year	I	II	III	IV	year	I	II	III	IV	year	1966
Exports of goods and services	37.0	35.1	40.5	40.1	40.3	39.0	42.0	42.3	43.8			
Payments to foreigners	37.0	35.1	40.5	40.1	40.3	39.0	42.0	42.3	43.8			
Imports of goods and services	28.5	28.7	32.3	33.0	34.2	32.0	35.7	36.8	39.0			
Transfers to foreigners, net	2.8	2.6	3.1	2.8	2.5	2.8	3.4	3.0	2.8			
Personal	.6	.6	.6	.6	.6	.6	.6	.6	.6			
Government	2.2	2.0	2.5	2.2	1.9	2.2	2.8	2.3	2.1			
Net foreign investment	5.7	3.8	5.1	4.2	3.5	4.2	2.9	2.5	2.0			
Change in U.S. Government assets, net; increase (+)	1.7	1.5	1.9	1.1	1.9	1.6	1.3	1.8	1.5			
Change in U.S. private assets, net; increase (+)	6.5	6.4	1.4	3.3	3.6	3.7	3.7	4.4	2.9			
Change in nonliquid assets in the U.S., net; increase (-)	-.7	-1.3	.5	1.0	-1.0	-.2	-1.2	-3.8	-1.1			
Errors and omissions, net	1.0	0	.4	1.0	.3	.4	1.2	.7	-.5			
Balance of payments, liquidity basis:	-2.8	-2.8	.9	-2.1	-1.3	-1.4	-2.2	-.6	-.8			
Change in U.S. official reserve assets, net; increase (+)	-.2	-3.4	-.3	-.2	-1.1	-1.2	-1.7	-.3	-.3			
Change in liquid liabilities to all foreigners, net; increase (-)	-2.6	.6	1.2	-2.0	-.2	-.1	-.5	-.3	-.5			

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U.S. Department of Commerce.

Gross Product Originating in Agriculture, 1947-65

By

W. John Layng and J. Dawson Ahalt

The usefulness of aggregate measures of economic activity, which reduce the large volume of detailed economic data to manageable proportions, has been widely recognized for some time. The most comprehensive and commonly used measure of aggregate economic activity is the gross national product (GNP). This series, prepared by the Department of Commerce, is presented in a complete system of national income and product accounts describing economic transactions between sectors of the economy. In recent years increasing emphasis has been placed on the industrial origin of GNP. The purpose of this article is to outline the concept of GNP by sectors and describe how growth in agricultural GNP relates to GNP growth for the rest of the economy, and to describe and analyze factors affecting agricultural GNP.

The GNP is defined as the market value of final goods and services produced by the Nation's economy. For the whole economy, final products include goods and services purchased by consumers and the Government, capital goods purchased by producers, changes in inventories, and net exports of goods and services. The value of total output would not be satisfactory conceptually because it includes double counting. Total output includes commodities and services sold by one producer to another for use in producing other commodities and services which ultimately become final goods and services. For example, the GNP of agriculture should not include the values of the steak we eat, the slaughtered steer, the feed used to fatten the steer, and the fertilizer used to help grow the feed. Despite the numerous stages of production, the end or final product is steak and not steak plus steers, plus feed, plus fertilizer. This is why GNP is derived by adding values of purchases for final use. Purchases of intermediate products are excluded.

However, GNP can also be derived by summing the value added by all industries in the economy. Value added for each industry is the total value of its output less the value of intermediate products purchased from other industries. Therefore, value added consists of incomes that accrue in the course of production (wages and salaries, interest, profit, etc.) plus certain nonincome charges against the value of production (property, excise and sales taxes, depreciation charges, etc.). For the whole economy, purchases and sales of intermediate products cancel and the value of final products equals the sum of incomes accruing in production plus nonincome production charges. However, for any individual industry intermediate products do not cancel out. Thus, GNP originating in any industry is measured as that industry's total value of output minus intermediate inputs consumed. Such information is useful in analyzing the growth or decline of individual industries relative to other industries or to total GNP.

The authors are economists in the Outlook and Projections Branch, Economic and Statistical Analysis Division, Economic Research Service, USDA.

The market value of final goods and services produced by the U. S. economy has risen dramatically during the past 2 decades. Starting from \$231 billion in 1947, the gross national product rose to \$681 billion in 1965, an average annual rate of increase of 6.2 percent (table 13). Eliminating the effect of price changes reduces the average annual growth rate to 3.9 percent.

Table 13.--Average annual percent change in GNP by major sector, 1947-65

Item	Current dollars	Constant 1958 dollars
Total GNP	6.2	3.9
Private	6.0	3.9
Farm	.9	1.9
Nonfarm	6.1	4.0

Economic growth during the period was not steadily upward. There have been four recessions during the postwar period in which growth was either negative or considerably below the average for the whole period. In addition, economic growth during expansionary periods varied considerably. For example, growth during the last half of the 1950's was 2.2 percent per year, while growth during the first half of the 1960's was 4.7 percent per year.

Individual industry growth rates, as measured by real GNP,^{1/} varied considerably during the 1947-65 period. Real gross national product originating in the private sector^{2/} grew at an annual rate of 3.9 percent during the period. In some industries--such as the chemical, transportation equipment, electric power, automotive, and telephone--growth was rapid during the period. In several industries--such as agriculture, textile mills, and leather--growth was slower.

Real gross national product originating in agriculture grew at an annual rate of 1.9 percent during the 1947-65 period--less than one-half the average for all industries in the private sector (table 13). The difference is even more pronounced in current dollars since prices in agriculture fell from 119 (1958=100)^{3/} in 1947 to 100 in 1965 and prices in the business nonfarm sector rose from 74 to 109 during the same period.

^{1/} GNP adjusted for price changes is referred to here as real GNP or GNP in constant 1958 prices.

^{2/} It is customary to exclude general Government in calculating economic growth by sector.

^{3/} Represents the implicit price deflator for gross product originating and is equal to GNP in current prices divided by GNP in constant prices and reflects changes in both input and output prices.

Table 14.--Total value of farm output, intermediate products consumed, and gross product: Annually, 1947-65

Item	(billions of current dollars)																	Average annual percent change 1947-65		
	:1947	:1948	:1949	:1950	:1951	:1952	:1953	:1954	:1955	:1956	:1957	:1958	:1959	:1960	:1961	:1962	:1963		:1964	:1965
Total value of farm output	:32.1	:36.2	:30.6	:32.8	:38.0	:37.4	:34.2	:33.8	:33.1	:33.3	:33.6	:37.6	:36.9	:37.6	:38.4	:39.9	:41.0	:39.3	:43.4	1.7
Cash receipts from farm marketings and CCC loans	:29.6	:30.2	:27.8	:28.5	:32.8	:32.5	:31.0	:29.7	:29.2	:30.3	:29.8	:33.4	:33.6	:34.1	:35.0	:36.1	:37.0	:36.7	:39.2	1.6
Livestock	:16.5	:17.1	:15.4	:16.1	:19.6	:18.2	:16.9	:16.3	:16.0	:16.4	:17.4	:19.2	:18.9	:18.9	:19.4	:20.0	:19.9	:19.8	:21.9	1.6
Crops	:13.1	:13.1	:12.4	:12.4	:13.2	:14.3	:14.1	:13.4	:13.2	:13.9	:12.4	:14.2	:14.7	:15.2	:15.6	:16.1	:17.1	:16.9	:17.3	1.6
Farm products consumed directly in farm households	:2.8	:2.7	:2.2	:2.1	:2.3	:2.2	:2.0	:1.8	:1.7	:1.6	:1.5	:1.5	:1.3	:1.2	:1.2	:1.1	:1.0	.9	.9	-5.9
Change in farm inventories	:1.8	:1.7	-.9	.8	:1.2	:1.0	-.6	.6	-.5	-.4	.5	.8	0	.2	.3	.7	.8	-.6	.9	2.8
Gross rental value of farm homes	:1.4	:1.5	:1.4	:1.5	:1.6	:1.7	:1.8	:1.7	:1.7	:1.7	:1.8	:1.9	:2.0	:2.0	:2.0	:2.1	:2.2	:2.3	:2.4	
Less: Value of intermediate products consumed, total	:11.8	:12.8	:11.7	:12.7	:14.9	:15.1	:13.7	:14.1	:14.2	:14.6	:15.0	:16.7	:17.1	:17.0	:17.5	:18.6	:19.3	:18.7	:19.5	2.8
Intermediate products consumed, other than rents	:10.0	:11.1	:10.3	:11.1	:13.2	:13.3	:12.1	:12.5	:12.7	:13.0	:13.6	:15.0	:15.5	:15.4	:15.8	:16.9	:17.5	:17.0	:17.6	3.2
Gross rents paid to nonfarm landlords (excluding operating expenses)	:1.7	:1.7	:1.4	:1.6	:1.8	:1.8	:1.7	:1.6	:1.6	:1.6	:1.6	:1.5	:1.7	:1.6	:1.6	:1.7	:1.7	:1.8	:1.9	.5
Plus: Other items	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.2	-.2	-3.8
Equals: Gross farm product	:20.2	:23.3	:18.8	:20.0	:22.9	:22.2	:20.3	:19.6	:18.8	:18.6	:18.4	:20.8	:19.6	:20.5	:20.9	:21.2	:21.5	:20.4	:23.8	.9

See notes at end of table.

Table 15.--Total value of farm output, intermediate products consumed, and gross product: Annually, 1947-65

Item	(Billions of dollars, 1958 prices)																	Average annual percent change 1947-65		
	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963		1964	1965
Total value of farm output	29.5	31.5	30.9	32.5	32.3	33.0	33.8	34.7	35.7	36.1	35.9	37.6	38.3	39.2	39.9	40.7	42.0	41.1	43.2	2.1
Cash receipts from farm marketings and CCC loans	27.1	26.5	27.8	27.9	27.5	28.5	30.6	30.5	31.6	33.1	31.9	33.4	35.0	35.8	36.5	37.0	38.3	38.8	39.6	2.1
Farm products consumed directly in farm households	2.6	2.5	2.3	2.3	2.1	2.1	2.0	1.9	1.8	1.8	1.6	1.5	1.4	1.3	1.3	1.1	1.1	1.0	.9	-5.7
Change in farm inventories	-1.6	1.0	-.8	.8	1.0	.7	-.4	.5	.4	-.6	.5	.8	0	.2	.2	.7	.8	-.6	.9	---
Gross rental value of farm homes	1.4	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.7
Less: Value of intermediate products consumed, total	12.5	12.4	12.4	13.0	13.8	13.9	13.7	14.1	14.6	15.2	15.4	16.7	17.1	17.2	17.6	18.6	19.1	18.9	19.3	2.4
Intermediate products consumed, other than rents	10.9	10.9	11.0	11.5	12.3	12.3	12.1	12.6	13.1	13.6	13.9	15.0	15.5	15.6	16.0	16.9	17.3	17.2	17.4	2.6
Gross rents paid to nonfarm landlords (excluding operating expenses)	1.6	1.5	1.5	1.5	1.5	1.6	1.6	1.5	1.6	1.6	1.6	1.5	1.7	1.6	1.6	1.7	1.7	1.7	1.8	.7
Plus: Other items	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.1	-.2	-.1	-.1	-.2	-.2	-.2	-3.9
Equals: Gross farm product	17.0	19.0	18.4	19.4	18.4	19.0	20.0	20.4	20.9	20.8	20.3	20.8	21.1	21.9	22.2	22.1	22.8	22.0	23.8	1.9

Details may not add to totals due to rounding
U.S. Department of Agriculture and Commerce.

Since GNP originating in agriculture is a net output concept, analysis should center around the aggregates behind GNP--total value of output and consumption of intermediate products. Total value of farm output includes cash receipts from farm marketings and CCC loans, the value of farm products consumed directly in farm households, the change in value of farm inventories, and the gross rental value of farm homes. Cash receipts from farm marketings, which usually account for over 90 percent of total value of output in current prices, generally reflect the market prices and quantities resulting from the interaction of supply and demand.

Demand for farm products is affected primarily by prices, incomes, consumer tastes, and population growth. Demand for farm products in total is quite inelastic with respect to prices and income. Large changes in prices and incomes influence per capita use very little. Thus, food consumption grows at about the same rate as population. During the 1947-65 period, cash receipts (constant 1958 prices) grew at an average annual rate of about 2 percent (table 15). Population during this period grew about 1.6 percent per year. However, exports grew around 4 percent per year during the 1947-65 period.

Supply of farm commodities is affected primarily by farmers' response to output prices, availability, and cost of inputs, technology, government policy, and weather. To the extent that supply grows more or less rapidly than demand in response to changing economic conditions, prices will fall or rise over the long-run. Apparently, supply of agricultural products grew at a faster rate than demand during the 1947-65 period since average output prices declined from a level of 109 (1958=100) in 1947 to 99 in 1965. As a result, cash receipts in current dollars grew about $1\frac{1}{2}$ percent per year (table 14) compared with 2 percent per year in constant 1958 prices.

Long-term movements in the other three relatively small components of total output were markedly different. The imputed value of farm products consumed directly in farm households declined steadily during the 1947-65 period while the gross rental value of farm homes rose steadily reflecting growth in replacement values of farm real estate.

Despite the long-term uptrend in cash receipts and total value of farm output, rather large year-to-year fluctuations have occurred. Most of the large year-to-year fluctuations can be traced to short-run supply conditions. These are influenced greatly by weather and cycles in livestock production. Due to the inelastic nature of demand for farm products, sudden and large increases or decreases in supply usually result in much larger changes in prices. Thus, price changes and not quantity changes usually account for most of the large year-to-year variations in cash receipts and total value of farm output. Adjusting total value of farm output and cash receipts for price changes sharply reduces the short-run fluctuations (table 15).

Intermediate products consumed are those items deducted from total value of output to avoid "double counting." Alternative ways of viewing intermediate products are that they are items charged to current cost or used up in farm

production. The major intermediate products excluded from gross farm product, are current purchases of feeder livestock, feed, seed, fertilizer, operation and repair of machinery and equipment, and gross rents paid to nonfarm landlords (table 16). A major part of expenditures for feeder livestock and feed merely represent interfarm sales. Expenditures for machinery and equipment are considered as capital investments and, therefore, are not included in intermediate products.

The total value of intermediate products consumed by agriculture in the postwar period has grown more rapidly than total value of output. The current dollar value of intermediate products has risen sharply since 1947 to a level of \$19.5 billion in 1965. Part of the rise in current dollar expenditures reflects the uptrend in prices of livestock and numerous off-farm originating inputs. From 1947 to 1965 the average annual rate of change in the current dollar value of intermediate products was 2.8 percent, compared with only 2.4 percent on a constant 1958 dollar basis. Much of the expansion in consumption of intermediate products by agriculture reflects substitution of these items for land and labor. Another factor is the expansion of internal transfers within agriculture such as purchases of feeder cattle and feedstuffs, and the rapid growth in purchased items from the nonfarm sector.

Feed purchases are the largest single current expenditure made by farmers. In recent years, they averaged around \$6 billion per year in current dollars. From 1947 to 1965 these purchases grew at an annual average rate of about 2.6 percent as producers responded to expanding consumer demand for meats. An increasing proportion of feed purchases represents processed feeds and growth in interfarm sales. Feeds produced and consumed on the same farm do not appear as cash receipts or intermediate products.

Feeder livestock purchases have grown significantly in the postwar period. From 1947 to 1965, livestock purchases increased at an average annual rate of about 4.2 percent per year to a level of \$2.9 billion in 1965. Larger livestock purchases are another indicator of the growing specialization occurring in postwar agriculture.

Demand for plant food has risen more rapidly than any other nonfarm originating input. From 1947 to 1965 fertilizer and lime expenses rose at an average annual rate of 4.7 percent, while prices remained steady or declined slightly. In 1965 current dollar fertilizer expenditures totaled \$1.7 billion. The substantial rise in use of plant nutrients together with improved seed varieties has more than offset the effect of the government induced decline in harvested acres on crop production since World War II.

Seed purchases have remained relatively stable at around \$1/2 billion in the postwar period. Use of better and more expensive seed varieties has about offset the effect of fewer acres planted on total seed expenditures.

Annual expenditures for operation and repair of capital items have averaged near \$4 billion since 1959. Despite some decline in relative importance, the average annual rate of growth for these items from 1947 to 1965 was 2.6 percent. Larger expenditures for repair and operation of capital items reflect the

Table 16--Value of intermediate products consumed, annually 1947-65

Item	(Billions of current dollars)										
	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	
Value of intermediate products consumed	11.8	12.8	11.7	12.7	14.9	15.1	13.7	14.1	14.2	14.6	
Intermediate products consumed, other than rents	10.0	11.1	10.3	11.1	13.2	13.3	12.1	12.5	12.7	13.0	
Feed purchased	3.7	4.0	3.0	3.3	4.1	4.3	3.8	3.9	3.9	3.9	
Livestock purchased	1.4	1.6	1.5	2.0	2.4	1.9	1.3	1.6	1.5	1.6	
Seed purchased	.5	.6	.5	.5	.6	.6	.6	.5	.6	.5	
Fertilizer and lime	.8	.8	.9	1.0	1.1	1.2	1.2	1.2	1.2	1.2	
Repairs and operations of capital items	2.4	2.8	2.8	2.9	3.2	3.4	3.5	3.4	3.5	3.7	
Miscellaneous expenses	1.2	1.3	1.5	1.5	1.8	1.8	1.8	1.8	2.0	2.1	
Gross rents paid to nonfarm landlords	1.7	1.7	1.4	1.6	1.8	1.8	1.7	1.6	1.6	1.6	
Value of intermediate products consumed	15.0	16.7	17.1	17.0	17.5	18.6	19.3	18.7	19.5	2.8	
Intermediate products consumed, other than rents	13.6	15.0	15.5	15.4	15.8	16.9	17.5	17.0	17.6	3.2	
Feed purchased	4.0	4.5	4.7	4.9	5.1	5.6	6.1	5.9	5.9	2.6	
Livestock purchased	1.9	2.7	2.7	2.5	2.7	3.1	2.9	2.4	2.9	4.2	
Seed purchased	.5	.5	.5	.5	.5	.5	.6	.5	.6	.9	
Fertilizer and lime	1.2	1.2	1.3	1.3	1.4	1.5	1.6	1.7	1.7	4.7	
Repairs and operations of capital items	3.8	3.8	4.0	3.9	3.8	3.9	3.8	3.8	3.8	2.6	
Miscellaneous expenses	2.1	2.2	2.3	2.3	2.4	2.4	2.5	2.6	2.6	4.1	
Gross rents paid to nonfarm landlords	1.5	1.7	1.6	1.6	1.7	1.7	1.8	1.8	1.9	.5	

Details may not add to totals due to rounding.
U.S. Departments of Agriculture and Commerce.

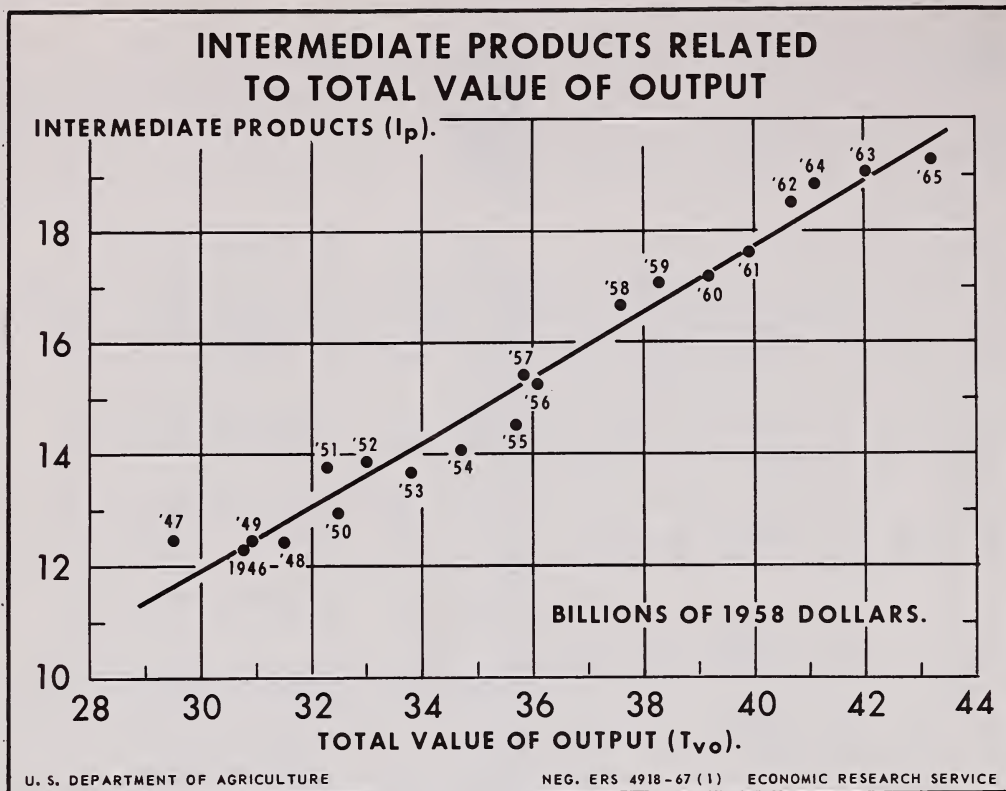


Figure 1

increased substitution of capital inputs for labor. The largest portion of current expenditures for repair and operation of capital items is in the form of fuel and oil expenses.

Miscellaneous expenses rose to a record level of 2.6 billion dollars in 1965. The growth rate for these expenses from 1947 to 1965 was nearly 4.1 percent per year. This item reflects increased use of pesticides, livestock marketing charges, ginning costs, veterinary services and medicines, and electricity.

Gross rental payments to nonfarm landlords have increased at an average annual rate of about 0.5 percent per year. Only the gross rental value of farmer-owned dwellings enters into final gross farm product.

In the production process farmers combine intermediate inputs (current operating expenses) with inputs of land, labor, and capital to produce farm products. Thus, the demand for intermediate products, like the demand for land, labor, and capital, is derived from the demand for the final product. In aggregate, the amount of intermediate products, on a constant dollar basis, can be related to the total value of output. Figure 1 shows the relationship between intermediate inputs and total value of output in the form of a scatter diagram.

An ordinary least squares equation, relating intermediate products (I_p) to total value of output (T_{vo}), explained 97 percent of the annual variation in (I_p). ^{4/} Evaluation of the elasticity of I_p with respect to T_{vo} at mean values of the variables implies a one percent increase in total value of output is associated with about a 1.4 percent increase in intermediate products consumed. A complete demand analysis would consider final product prices as well as direct and other input prices.

Gross national product originating in agriculture equals the value added in agriculture or the total value of output less the cost of intermediate products consumed. In other words, it represents agriculture's contribution to the Nation's economic activity. Under the concepts of the national income and product accounts this includes returns to the factors of production plus certain "other" charges against production. Returns to the factors of production in agriculture include the hired wage bill, net farm income, and net interest payments. The "other" charges against production include indirect business taxes and capital consumption allowances. Gross national product originating in agriculture (current prices) grew 0.9 percent per year between 1947 and 1965 (table 17). In constant 1958 prices, it grew about 1.9 percent per year during the 1947-65 period. This difference reflects declining output prices during this period and rising intermediate input prices. The trend in aggregate GNP originating in agriculture reflects quite different trends in individual components.

Compensation of hired farm workers exhibited very little change during the 1947-65 period. Compensation of employees includes wage and salary payments as well as supplements to wages and salaries such as employer contributions for social insurance. However, significant changes occurred in factors which affect earnings of employees. Trends in the wage bill reflect trends in number of employees, hours worked, and wage rates. The number of hired employees in agriculture has been trending downward as has the average number of hours worked per week. However, wage rates have been trending upward. As a result, the total hired labor bill in agriculture has held steady. This does not represent the total labor share in agriculture since it excludes all unpaid family workers.

Returns to operator and family labor are included in net farm income along with returns on investment and profit from current business operations. The net farm income component ^{5/} of GNP originating on farms (excluding Government payments) trended downward between 1947 and 1965. Government payments to farmers are excluded because they do not add to market value of output as defined in the national income and product accounts. On a per farm basis, net farm income rose substantially due to the down trend in the number of farms. However, there have been large year-to-year movements reflecting short-run changes in total value of farm output.

$$\text{4/ } I_p = -5.726 + .588 T_{vo} \quad r^2 = .97$$

^{5/} Realized net farm income (including Government payments) is equal to total net farm income plus Government payments minus farm inventory change.

Table 17.--Gross farm product by type, annually 1947-65

Item	(Billions of current dollars)												Average annual percent change 1947-65
	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956			
Total gross farm product.....	20.2	23.3	18.8	20.0	22.9	22.2	20.3	19.6	18.8	18.6			
Capital consumption allowances.....	1.4	1.9	2.2	2.5	3.0	3.1	3.3	3.4	3.5	3.5			
Indirect business taxes.....	.6	.7	.8	.8	.9	.9	.9	.9	1.0	1.0			
Compensation of employees.....	2.8	3.0	2.8	2.8	2.8	2.7	2.6	2.4	2.4	2.4			
Net income (excluding govern- ment payments).....	15.1	17.4	12.6	13.4	15.7	14.8	12.9	12.3	11.3	11.0			
Net interest.....	.3	.3	.4	.4	.5	.6	.6	.6	.6	.7			
Total gross farm product.....	18.4	20.8	19.6	20.5	20.9	21.2	21.5	20.4	23.8	.9			
Capita consumption allowances.....	3.7	2.8	4.0	4.0	4.0	4.1	4.2	4.5	4.7	6.9			
Indirect business taxes.....	1.1	1.1	1.2	1.2	1.3	1.4	1.5	1.5	1.6	5.2			
Compensation of employees.....	2.5	2.6	2.7	2.8	2.8	2.8	2.9	2.8	2.8	0			
Net income (excluding govern- ment payments).....	10.4	12.5	10.8	11.4	11.6	11.6	11.6	10.1	13.0	-.8			
Net interest.....	.7	.8	1.0	1.1	1.2	1.3	1.4	1.5	1.7	10.3			

Details may not add to totals due to rounding.

U.S. Departments of Agriculture and Commerce.

Net interest payments rose faster than any other component of farm gross product during the 1947-65 period. Net interest payments rose from slightly less than \$0.3 billion (current dollars) in 1947 to about \$1.7 billion in 1965 or at an average annual rate of over 10 percent. Greater reliance on external sources of funds, higher interest rates, and increased use of capital goods explain a great deal of the rise.

The capital consumption component of GNP also grew sharply between 1947 and 1965, averaging almost 7 percent per year. This reflects the substantial rise in agricultural investment in structures and equipment during the 1947-65 period. Expenditure for farm buildings and farm machinery and equipment rose from \$2.7 billion in 1947 to \$4.9 billion in 1965 or at an average annual rate of 3.4 percent. The rise during this period was almost entirely in farm machinery and equipment since expenditures for farm buildings fell from \$0.8 billion to \$0.7 billion.

Indirect business taxes ^{6/} levied on farmers consist primarily of real estate and personal property taxes at the State and local Government level. However, it also includes other items such as auto and truck license fees. The total amount of indirect business taxes paid by farmers rose from about \$0.6 billion in 1947 to slightly below \$1.6 billion in 1965. Almost all of this is accounted for by taxes on farm property excluding that owned by nonfarm landlords and reflects rising tax rates as well as the steady uptrend in real estate values during the postwar period.

In summary, the concept of GNP originating in the farm sector is a useful framework for analyzing the net contribution of agriculture to the Nation's economic production. In addition, GNP by industry is considered by many as a superior method of comparing growth rates of various industries relative to each other and relative to total GNP. From a statistical viewpoint, it facilitates understanding how the vast body of agricultural statistics are included in the national income and product accounts. It should be pointed out that the computation of gross farm product is largely an alternative way of presenting the USDA farm income statistics.

^{6/} Includes all tax liabilities incurred by business except income taxes.

CURRENT COMMODITY SITUATION

LIVESTOCK AND LIVESTOCK PRODUCTS

Meat Animals

As a result of a stronger demand for meat in 1966, livestock prices averaged above a year earlier even though red meat production was 3 percent larger. A 5 percent rise in the beef supply and a slight increase in pork production more than offset declines in output of veal and lamb and mutton. Red meat production will be above the same period in 1966 during the first 6 months this year. Meat animal prices are expected to average near or slightly above January levels but below a year earlier during this period.

Fed cattle marketings will continue well above year-earlier levels the next several months. On January 1 there were 11.1 million head of cattle on feed--7 percent more than a year earlier. Cattle feeders stated intentions to market 8 percent more cattle out of feedlots during the first quarter this year than last. Thus, market supplies of fed beef will continue larger this winter and early spring but may be near year-earlier levels by mid-year.

Fed cattle prices strengthened slightly late in 1966 and in late January. Choice grade steers at Chicago were averaging about \$25.20 per 100 pounds--about \$2 below a year earlier. Prices are expected to continue near this level during the rest of the winter but may strengthen moderately next spring. However, bunched fed cattle marketings could result in some price weakness during the next several months.

Hog slaughter during the first half of 1967 will continue well above a year earlier as a result of the 9 percent increase in the June-November 1966 pig crop. Indications for a 3 percent increase in the December 1966-May 1967 crop, with all the increase in the winter months, suggests summer supplies will continue large. However, the increase over a year earlier will narrow as the season progresses.

Barrow and gilt prices at 8 markets were averaging near \$19.50 per 100 pounds in mid-January--about \$9 below a year earlier. Prices are expected to follow a more normal seasonal course this year in contrast to generally declining prices in the first half of 1966. This winter, prices may average only \$1 above mid-January but the summer peak will be substantially higher than current levels and only moderately below the August peak of \$25.75 last year.

Lamb supplies will likely be under year-earlier levels in 1967. There were 6 percent fewer lambs on feed on January 1 than a year earlier. Also, an expected smaller early lamb crop and perhaps some withholding of ewe lambs this year will reduce the supply of slaughter lambs during the first half of the year.

Choice slaughter lambs at Denver were around \$22.25 per 100 pounds in late December, about \$4 below a year earlier. Lamb prices are expected to follow a more typical pattern of rising prices late this winter and early spring in contrast to a general decline during this period last year. Even though large supplies of fed beef and pork will continue to exert pressure on prices of all meat animals, spring lamb prices likely will be near or above a year earlier.

Dairy Products

Milk production during 1966, according to monthly data, totaled 121.5 billion pounds, 2.9 percent below the 1965 level. This was the largest annual drop in production since 1948. After declining 5.2 percent from a year earlier in the first quarter of 1966, milk production reached year-earlier levels in November and December for the first time since April 1965.

Milk cow numbers in the fourth quarter continued to decline near the 5 to 6 percent rate of mid-1966, but substantial increases in output per cow maintained milk production. Output in the first quarter of 1967 is expected to show some increase over the low level of a year earlier.

The main impact of the 1966 decline in milk production was on butter and nonfat dry milk output, which fell about 15 and 21 percent, respectively. However, in the 4th quarter of 1966, butter output was up 4 percent from a year earlier and in January was running about 13 percent above a year earlier, compared with the 23 percent decline in the first half of 1966. Nonfat dry milk output continued below year-earlier levels throughout 1966, but may rise above year-earlier levels in the first quarter of 1967. American cheese production rose 24 percent from a year earlier in the 4th quarter of 1966, bringing the year's total some 6 percent up from 1965, and in January continued about one-fourth above a year earlier. Milk used in the major manufactured dairy products increased over a year earlier starting in August and in the 4th quarter of 1966 was up almost 8 percent from a year earlier.

Fluid whole milk sales lessened their rate of increase in 1966 in response to higher retail prices. January-November 1966 sales of fluid whole milk were about the same as a year earlier in major urban marketing areas, compared with a 1 percent increase during the previous year. Sales of whole milk in these areas actually declined about 2 percent from a year earlier in October and preliminary data indicate a 3 percent decline in November.

Retail prices of milk and dairy products rose 10 percent from a year earlier during the last quarter of 1966. However, the index of retail dairy product prices dropped slightly to 116.7 in November from the October high of 117.1. For the first half of 1967, retail dairy prices are expected to average about 7 percent over a year earlier.

U.S. farm milk prices averaged \$4.82 per 100 pounds in 1966, 56 cents above 1965, and close to the record \$4.88 in 1948. The January 1967 price was \$5.15 per 100 pounds, up 13 percent from January 1966. In the first half of 1967, prices farmers receive for milk likely will average about 10 percent above a year earlier.

Manufacturing milk prices in January were about 17 cents above the support price of \$4.00 per 100 pounds (adjusted to the national average fat test). The present support level of \$4.00 per 100 pounds of manufacturing grade milk and 68 cents per pound of butterfat will be continued through the 1967-68 marketing year (April-March). Prices of milk eligible for fluid markets are moving seasonally downward, as increasing output is raising market supplies above use for fluid purposes.

Wholesale Grade A butter prices at Chicago fell to the support purchase price level of 66.5 cents, in early December, and have held at that level through mid-January. Wholesale prices of American cheese at Wisconsin assembly points in mid-January, at 46.5 cents for Cheddars, were about $2\frac{1}{2}$ cents over the support level. Price declines may occur later as cheese production grows seasonally.

Increased milk supplies relative to commercial demand already have raised CCC purchases of butter and cheese in first quarter 1967 above the low amounts (0.2 billion pounds, milk equivalent) purchased in January-March 1966. Purchases on a contract basis for the first three weeks of January were about 25 million pounds of butter and 11 million pounds of American cheese--about 0.7 billion pounds milk equivalent--plus 25 million pounds of nonfat dry milk. In calendar 1966, CCC removals of dairy products from the market through the price support and related programs were 0.6 billion pounds milk equivalent as butter and cheese and 366 million pounds of nonfat dry milk, compared with 5.7 billion pounds milk equivalent of butter and cheese and 1,098 million pounds of nonfat dry milk in 1965.

Total stocks of manufactured dairy products at the beginning of 1967 were about 4.7 billion pounds milk equivalent, slightly above a year earlier. Commercial holdings of dairy products increased during 1966, while Government stocks declined. Government stocks of dairy products were small at the beginning of 1967.

Exports of dairy products dropped sharply in 1966, due to reduced supplies available for export and smaller overseas demand, and are expected to remain at relatively low levels during 1967. Imports of dairy products in 1966 are estimated at 2.8 billion pounds milk equivalent, about 2.3 percent of production, and triple the 0.9 billion pounds milk equivalent of dairy products imported in 1965. In 1967 imports likely will rise from the 1966 level.

Poultry and Eggs

Turkey producers indicated they plan to raise 8 percent more turkeys this year than last. Turkey supplies will be up even more because cold storage holdings of turkey on January 1 totaled 273 million pounds, 73 million above those at the beginning of 1966. Much of the increase in turkey production in 1967 will occur during the first half of the year. Poult hatchings in the 5 months through January, which will provide most of the turkeys to marketed in January-June, although seasonally small, were up about a third from a year earlier. Turkey breeder hens on January 1 probably were close to 10 percent above a year

earlier, judging from the number of turkeys tested for Pullorum disease in recent months.

Larger turkey supplies, together with greater competition from broilers, fowl, and pork, are expected to cause farm turkey prices in 1967 to average appreciably below the 23.3 cents per pound in 1966. Prices for hens and fryer-roaster turkeys are expected to be depressed more than prices for toms. Demand for toms may be bolstered somewhat by the increasing demand for convenience foods made from large turkeys.

Live broiler prices in 1966 declined from 16.6 cents per pound in July to 11.9 cents in December. The price weakness was partly seasonal but resulted mostly from large and expanding supplies of broilers and pork. Federally inspected broiler slaughter in October-December 1966 ran a tenth above the like 1965 period.

Around the turn of the year, however, broiler prices strengthened as retailers stepped up chicken specials. Live prices in January averaged 13.9 cents per pound, up 2.0 cents from December but still 2.5 cents below a year earlier. Broiler prices may stabilize around the January level over the next 3 months because producers are reducing the rate of production expansion. However, prices may not equal the relatively high prices of early 1966 because of increasing competition from pork, fed beef, turkeys and fowl. Broiler chicks placed in leading production areas during the 9 weeks through January 21 were 3 percent above a year earlier and egg settings in these States during the 3 weeks through January 21 were up 2 percent. This indicates that February-April production will be up only a little from a year earlier.

The Nation's broiler hatchery supply flock during the first half will be much larger than a year earlier. This means that there is both a potential and an incentive, now that prices have improved, for a step-up in production. Therefore, broiler chick placements in coming months may increase relative to a year earlier.

A large buildup is now underway in the Nation's egg laying flock. On January 1 potential layers, layers plus pullets not laying, totaled 368 million, up nearly $4\frac{1}{2}$ percent from a year earlier. In addition, the hatch of replacement pullet chicks in November and December was record large, totaling 41.0 million. This was 9.0 million or 28 percent above a year earlier.

The buildup on laying flocks is expected to result in at least a 3 to 4 percent increase in egg production in 1967. First half production likely will be up by a wider margin. The increase for the year as a whole would be the largest in more than a decade.

More plentiful egg supplies are now causing farm egg prices to average much below the relatively high levels of 1966. In mid-January, U.S. farm egg prices averaged 37.4 cents per dozen compared with 40.9 cents in December and

37.5 cents in January 1966. Prices have declined sharply since mid-January, with quotations in Chicago falling around 8 cents to 29 cents per dozen on January 31, 1967, to a level of 13 cents below a year earlier. There may be some temporary recovery from these depressed levels, but egg prices to U.S. producers over the next 5 months are expected to average 5-10 cents per dozen below both mid-January and year-earlier levels.

Wool

World wool consumption rose sharply in the first 3 quarters of 1966, up about a tenth in major manufacturing countries compared with a year earlier. During July-September, however, the rate of wool use declined slightly in West Germany, Italy, Japan, the United Kingdom, and the United States. Although this decline was offset by increases in France, Belgium, and the Netherlands, wool mill activity likely reached a peak during the second and third quarters of 1966. World wool production in the 1966/67 season increased slightly and contributed to the decline in prices during the last half of 1966. Wool prices in December averaged about 10 percent below the mid-year peak. During the first half of 1967, world wool prices likely will remain relatively firm at current levels as a result of reduced stocks in supplying countries and increased buying activity of the New Zealand and South African Wool Commissions.

U.S. wool prices in the last half of 1966 declined along with those in world markets: Territory wool, 64's and finer, declined 5 percent; and fleece 56's to 58's fell 12 percent. Reduced U.S. mill use of apparel wool and lower world wool prices likely will result in slightly lower domestic wool prices in 1967 compared with a year earlier. Wool production in the United States during 1967 is expected to show little change from 1966.

Mill use of apparel wool in the United States fell sharply during September-October 1966 from high levels during the first part of the year. This resulted from a sharp decline in unfilled orders for finished apparel wool fabrics and a further lowering of non-cellulosic fiber prices.

The decline in apparel wool mill activity during late 1966 was accompanied by smaller imports of dutiable raw wool and of semi-processed and manufactured apparel wool textile products. Monthly imports of dutiable raw wool averaged about 17 million pounds, clean basis, in January-June compared with 9 million pounds in July-December. Apparel wool textile product imports declined from record high levels during early 1966 to quantities below year earlier rates in late 1966.

CROPS

Wheat

The total supply of wheat for the 1966/67 marketing year is 1,848 million bushels, about 286 million below that of a year earlier. Exports of wheat and products during July-December 1966, the first half of the marketing year, were 440 million bushels, about 51 million above the same months in 1965. Total disappearance during July-December 1966 reached 800 million bushels, only

fractionally above the same period in 1965. Use of wheat for food and seed totaled about 335 million bushels during July-December 1966, leaving around 25 million for feed. Feeding during the first half of the 1965/66 marketing year was placed at 85 million bushels. The rate of export movement is likely to slacken during the second half of the year and the carryover on June 30, 1967, probably will be around 400 million bushels.

The season average wheat price received by farmers during 1966/67 was estimated at \$1.64 per bushel compared with \$1.35 per bushel in 1965/66. The national average loan rate in each of these years was \$1.25 per bushel. Including an allowance for marketing certificate payments, the average return per bushel for all farmers totaled \$1.71 for the 1965 crop and is now estimated at \$2.14 for the 1966 crop.

The winter wheat crop, for harvest in 1967, was forecast at 1,283 million bushels as of December 1, 1966. If realized, this would be the largest winter wheat crop of record. The planted acreage was indicated at 54.1 million with a yield of 23.7 bushels per acre. This acreage is 26 percent above that seeded a year earlier and the largest since the 57.1 million acres seeded for the 1953 crop. The national acreage allotment for all wheat in 1967 is 68.2 million acres. Assuming that spring wheat producers respond similarly to the winter wheat producers, a total crop of around 1.6 billion bushels is likely for 1967.

Rice

The total supply of rice (rough equivalent) in 1966/67 is placed at 93.8 million hundredweight. This consists of a beginning carryover of 8.2 million cwt., only slightly above that of August 1, 1965, a record crop of 85.1 million and an allowance for negligible imports.

Domestic use of rice in 1966/67 is likely to be up slightly from the 30.8 million cwt. of a year earlier. Food use of rice is expected to continue its uptrend and may total 25 million cwt. Seed use will be somewhat smaller resulting from the smaller 1967 acreage allotment. That allotment is 1.8 million acres, 10 percent below the allotment in effect in 1966.

Total rice exports set a record of 43.3 million cwt. in 1965/66 with commercial exports reaching a new high of 27.1 million cwt. The remaining 16.2 million cwt. were shipped under concessional terms. Export registrations from August 1, 1966, to mid-January 1967, at 22.8 million cwt., are 10 percent ahead of the same period in 1965/66. With the large supply available for export and the restrictions currently in effect on exports from Thailand, the world's leading exporter, it is likely that U.S. exports for the entire 1966/67 marketing year could exceed last year's record. The level of exports in 1966/67 will determine the ending carryover but it is not likely to be much different than the 8.2 million of August 1, 1966.

Feed Grains

The 1966/67 feed grain supply, now estimated at 200 million tons, is 13 million below a year earlier and about 19 million below the 1960-64 average. The carryover of 42 million tons was down 13 million, accounting for the entire drop in the total supply. The 1966 crop totaled 157 million tons practically the same as the record crop of 1965. Domestic consumption in the current marketing year is expected to continue heavy--probably exceeding the 141 million tons consumed in 1965/66. During October-December, domestic consumption totaled nearly 43 million tons, 5 million more than in that quarter of 1965. Exports totaled over 6 million tons, but were down about 1 million from the year before. Present indications are that for the entire 1966/67 marketing year they will fall below the 29 million shipped in 1965/66. With prospects for continued heavy utilization during 1966/67, the carryover at the end of the year probably will be reduced by around 40 percent from the 42 million tons carried over at the beginning of the year.

Feed grain stocks on January 1 totaled 143 million tons--17 million below a year earlier and 39 million below the record level on that date of 1961. Of the total, "free" stocks were estimated at 117 million tons, up 4 million from last year. Stocks under loan or owned by CCC amounted to 26 million tons, 21 million below January 1, 1966, and the lowest in more than 10 years.

The corn supply for 1966/67 was 4944 million bushels--6 percent smaller than in 1965/66 and around 8 percent below the 1960-64 average. Despite the smaller supplies, heavy utilization is in prospect for the 1966/67 marketing year--probably exceeding the 4.4 billion bushels in 1965/66. This would result in a substantial reduction in the carryover next October 1, from the 840 million carryover into 1966/67.

The 1966/67 grain sorghum supply of 1,111 million bushels was 10 percent less than a year earlier. Although production increased 7 percent to a new record high, this was more than offset by a sharp drop in carryover. The oats supply of 1,119 million bushels was 8 percent lower than in 1965/66 while the barley supply of 505 million bushels was little changed.

Feed grain prices rose less than seasonally from November to January, but in January they averaged 10 percent above a year earlier and the highest for the month since 1955. For the period October-January, prices of the 4 feed grains averaged 15 percent above a year earlier and are expected to continue strong this winter and spring. Prices of each of the 4 feed grains have been well above the 1966 loan rates so far during 1966/67. The quantity of feed grains placed under loan continues to decline and through December was 29 percent below the corresponding period of 1965.

A special December 1, 1966 survey of corn producers in 25 States indicated their intentions to increase their 1967 corn acreage about 7 percent over the acreage planted in 1966. The 25 States included in the survey normally account for about 93 percent of the total corn acreage in the U.S. A 7 percent increase in the total U.S. acreage would amount to about 5 million more than the 66 million planted in 1966. The results are subject to change as producers have considerable time between the survey and planting season to study provisions of the 1967 Program and other economic aspects influencing planting decisions. The sign up period for the 1967 Feed Grain Program will be February 6 through March 3.

Oilseeds, Fats and Oils

Soybean supply for 1966/67 is placed at 967 million bushels, 10 percent above the previous year. The increase is due largely to the record 1966 soybean crop. Crushings are forecast at around 575 million bushels, compared with 538 million last season, and exports at about 275 million bushels, compared with 251 million last season. This would leave carryover stocks of soybeans on August 31, 1967, around 60 million bushels.

This marketing year the rate of increase in soybean crushings is not as great as last year due primarily to the relatively high price of soybeans as compared with product values--soybean oil prices are lower this year than last and meal prices are higher. So far, soybean crushings have been determined primarily by expanding soybean meal requirements and soybean oil stocks have increased modestly. Crusher demand likely will pick up as reduced supplies of competitive cottonseed oil and meal increase total soybean oil and meal requirements. Thus far this marketing year, soybean exports have matched last year's record rate, despite increased prices to U.S. soybean farmers of about 16 percent. The rate for the entire season will largely depend upon soybean price movements over the rest of the marketing year. Japan and Europe are the major U.S. soybean markets and requirements have trended upward.

Soybean prices to farmers during September-January 1966/67 were fairly steady, averaging \$2.83 per bushel or about 40 cents above the same months in 1965/66. This season, farmers are storing a record quantity of soybeans. Soybean prices to producers are expected to continue favorable but may average slightly lower than in the first 5 months of the marketing year and sharply below the February-August 1966 level of \$3.00 per bushel.

Cottonseed oil supplies during the marketing year which began August 1, 1966, are placed at 1.5 billion pounds, one-third below 1965/66 and the smallest since 1950/51. Domestic disappearance is estimated at 1.2 billion pounds compared with 1.7 billion in 1965/66. About 0.3 billion pounds of cottonseed oil would be available for export or carryout stocks on July 31, 1967 as compared with 0.6 billion pounds in 1965/66.

Lard production in the 1966/67 marketing year beginning October 1, 1966, is estimated at 2.0 billion pounds, about 5 percent above a year ago. Domestic use is placed at 1.7 billion pounds, up slightly from last year. This would leave around 0.3 billion pounds of this year's estimated production available for export or addition to carryout stocks next September 30.

Fruit

Supplies of fresh and processed citrus fruits during the first half of 1967 are expected to be substantially larger than a year earlier mainly because of much heavier crops in Florida and Texas. Remaining supplies of fresh deciduous fruits from 1966 crops, except apples, are larger than a year ago. Year-end holdings of processed deciduous fruits also appear to be somewhat larger.

The 1966/67 U.S. citrus crop, as of January 1, was expected to be about a fourth larger than in 1965/66 and the largest of record. Prospective production increases over last season for the 3 leading citrus fruits are: Oranges--28 percent; grapefruit--10 percent; and lemons--8 percent. Supplies of each fruit remaining for harvest after mid-January were considerably larger than a year earlier. Early-season harvesting of citrus in Florida lagged considerably behind a year ago primarily because of late maturity of fruit. As a consequence, in mid-January remaining supplies of Florida oranges--to be moved during the first half of 1967--were substantially larger than the State's entire 1965/66 crop. By the end of December, harvesting had reached a high level and is expected to continue in large volume this winter and spring. The pressure of much larger citrus supplies during this period will likely result in a continuation of prices for fruit--for both fresh and processor uses--considerably below year-earlier levels.

Much heavier 1966/67 citrus crops, especially in Florida, point to substantially increased packs of principal processed citrus items in the current season. In particular, production of Florida frozen orange concentrate juice, by far the leader among processed citrus items, is expected to be up sharply from last year. The industry entered the current season with carryover stocks substantially below year-earlier levels. Although frozen orange concentrate output by mid-January was considerably larger than during the same period in 1966, packers' stocks continued smaller. However, as processing continues this winter and spring, supplies are expected to mount sharply and lower retail prices are in prospect.

Year-end cold storage stocks of fresh apples were slightly smaller than on January 1, 1966. Stocks were down sharply in the East where unfavorable weather curtailed production but were considerably higher in the West, especially in Washington, where most apples are marketed in fresh form. In mid-January, shipping point prices were above a year earlier in the Eastern and Central States but substantially lower in Washington. Although cold storage stocks of grapes were up moderately, California shipping point prices continued

substantially above year-earlier levels. Pear stocks were much above a year ago and prices at shipping point were materially lower. The above items comprise most of the remaining fresh fruits from the 1966 deciduous fruit crop. The 1967 Florida winter strawberry crop, now being harvested, is expected to be considerably smaller than the 1966 crop due to a reduction in acreage. Prospective spring strawberry acreage is down a little.

Year-end stocks of canned deciduous fruits probably were somewhat larger than on January 1, 1966, primarily because of increases in pears, peaches, and fruit cocktail items. But stocks of apple slices and applesauce on January 1 were down considerably from a year ago. The packs of these items are expected to be substantially smaller than in 1965/66. Production of processed apple products usually continues into late winter or spring. Cold storage stocks of frozen fruits and berries were moderately larger on January 1 than on the same date last year. Stocks of strawberries, the leading frozen item, were sharply above a year earlier, as were holdings of most other kinds of berries, and apples. But year-end stocks of frozen cherries, a fruit usually frozen in large quantity, were down sharply--a result of the short 1966 sour cherry crop. Of important dried fruits, year-end holdings of raisins, the leading item, were up considerably but those of dried prunes were down from a year ago.

Commercial Vegetables

Total supplies of fresh vegetables during February and March this year are expected to be larger than a year earlier. With growing conditions favorable, increased production is in prospect for snap beans, broccoli, sweet corn, celery, lettuce, carrots, spinach, and peppers. Winter cabbage output is expected to be the same as in 1966. Onions are the only item likely to be in particularly tight supply. With output generally larger, prices for most fresh vegetables this winter are expected to average sharply below the high prices of a year earlier.

Domestic production during the next 3 to 4 months will be supplemented by imports, mostly from Mexico. Vegetable acreage in that country is up this year, and supplies available for export likely will be considerably larger than a year earlier. Although the volume moving into the United States will be influenced somewhat by U.S. production and prevailing prices, increases over last season are in prospect for most fresh vegetables.

Processed:

Supplies of canned vegetables available for marketing into mid-1967 are about the same as a year earlier and moderately below the recent 5 year average. There are more lima beans, sweet corn, pickles, and tomato products than a year ago but supplies of other leading items are smaller. Except for reduced holdings of green peas, January 1 stocks of frozen vegetables were larger than a year earlier, with a particularly sharp increase in stocks of frozen sweet corn.

Markets for vegetables have been strong this season. Movement of canned items has been running close to that of last season, with f.o.b. factory prices the same or above the high prices of a year earlier. Prices also have been relatively high for nearly all frozen vegetables. However, with supply heavy, prices for sweet corn are down materially from those of last season.

Supplies of potatoes for marketing this winter and spring are a little smaller than a year earlier. The 1966 fall potato crop, most of which is stored for later use, was 3 percent larger than in 1965. However, with movement to food outlets holding at a high level and storage losses unusually heavy, particularly in Idaho, disappearance has been the largest on record. So remaining stocks are slightly below those of a year ago. Stocks on January 1, 1967 were up materially in the East, but down moderately in both the Midwest and West. Winter crop output, which accounts for only a fraction of total winter supply, is down a tenth from last year due to less acreage and lower expected yields.

Potato prices in early winter were averaging substantially higher than those of a year earlier. With prospects of heavy disappearance during the rest of the storage season, generally stable markets appear likely into mid-spring.

Remaining supplies of sweetpotatoes are materially below the burdensome supplies of a year earlier, because of a 13 percent smaller production in 1966. As marketings decline seasonally this winter and spring, prices are expected to continue sharply higher than the depressed prices that prevailed last season.

Supplies of dry beans for 1966/67 were sharply above the tight supplies of the previous season. Carryover stocks of dry beans at the beginning of the current marketing season last September 1 were relatively small. But production in 1966, at 20.3 million hundredweight, was record large. With supplies of all classes abundant, movement to both domestic and foreign outlets will be heavy. Nevertheless, markets likely will remain weak, with prices for 1966 crop beans averaging sharply below the high prices for the 1965 crop.

Total supplies of dry peas during the 1966/67 marketing season were substantially smaller than those of the previous season. Both carryover stocks and production were down materially. Despite smaller supplies, prices for most varieties have been below year earlier levels, partly due to a slow export demand.

Cotton

U.S. carryover of all kinds of cotton on August 1, 1967, is expected to total around 12 million bales. This is about 1 million bales below the November 1966 estimate and nearly 5 million bales below record stocks carried over last August. This revised carryover estimate stems from the reduced 1966 crop. Mill consumption and export prospects are unchanged.

Estimated 1966 production dropped a total of about 1 million bales during October and November, primarily because of widespread losses resulting from weather and insect damage. As of December 1, the crop was estimated at 9.6 million bales, down over one-third from last year's output of 14.9 million running bales.

The drop in production this year reflects both smaller acreage and reduced yields. Harvested acreage is 30 percent less than last year, mainly because producers diverted over $4\frac{1}{2}$ million acres of their allotment. An average yield of 482 pounds per harvested acre is estimated for the 1966 crop, down from last year's record high of 526 pounds and only slightly above the 1960-64 average of 475 pounds. Growing conditions were generally unfavorable for the 1966 crop.

Mill consumption of cotton has remained at a high level in recent months, and total use for this crop year will probably be around 9.6 million bales. This compares with 9.5 million bales used last year and would be the largest since 1950/51. Factors contributing to the high level of cotton use this year includes large civilian purchases of textile products, expanding military requirements for products, and competitive gains for cotton in the domestic market.

U.S. cotton export prospects remain favorable for this crop year. Actual exports rose to 0.5 million bales in November and totaled 1.5 million bales for August-November 1966, up from 1.0 million bales for the same period of 1965. Exports are expected to continue above 1965/66 and may total around 5 million bales for this season--up from last season's total of 2.9 million bales. U.S. exports are increasing this year because of record consumption of cotton in foreign Free-World countries and smaller exportable supplies in foreign producing countries.

Provisions for the 1967 upland cotton program have been announced by USDA. The national average loan rate for Middling 1-inch cotton has been set at 20.25 cents per pound compared with 21.00 cents for the 1966 crop. The price-support payment rate will be 11.53 cents per pound, up from 9.42 cents for the 1966 crop, because of the lower loan level and increases in parity prices for cotton. The diversion payment rate will be 10.78 cents per pound, slightly higher than 10.50 cents this year. The minimum CCC sales price for Middling 1-inch cotton next year will continue to be about 22 cents per pound.

In a referendum held in December 1966, upland cotton producers approved assessments of \$1 per bale to finance cotton research and promotion beginning with the 1967 crop. About 68 percent of the producers voting favored the proposed program which is to strengthen cotton's competitive position and expand its uses. Also, upland cotton marketing quotas for the 1967 crop were approved by 91.6 percent of the farmers voting on the referendum.

Tobacco

Cigarette consumption by U.S. smokers in 1966 is estimated at $2\frac{1}{2}$ percent above 1965 and above any previous year. On a per capita basis (18 years and over), estimated consumption in 1966 was up seven-tenths of 1 percent, but was still below the 1963 peak. In 1967, total U.S. cigarette consumption seems likely to show a further modest rise, due to the increase in adult population and strong consumer buying power.

Legislation enacted in 1965 requires the Department of Health, Education, and Welfare to report to Congress by July 1, 1967, concerning current information on smoking and health. The Federal Trade Commission is also required to report by that date on the effectiveness of cigarette labeling and on cigarette advertising and promotion.

Consumption of cigars and cigarillos by U.S. smokers in 1966 is estimated at 3 percent below 1965 and 8 percent below the record 1964 level. However, 1966 estimated consumption is 15 percent higher than in 1963--the year before issuance of the smoking-health report. While no marked change in cigar consumption appears likely in 1967, it might increase some over 1966.

Smoking tobacco output in 1966--for pipes and roll-your-own cigarettes--was probably $2\frac{1}{2}$ percent below 1965. Imports of smoking tobacco showed a sizable increase and likely accounted for around 4 percent of total U.S. consumption. The 1966 output of chewing tobacco probably was about the same as in 1965, but snuff output is estimated to be down slightly.

Calendar 1966 exports of unmanufactured tobacco (usually an outlet for about a fourth of U.S. production) were about 18 percent higher than in 1965. For the year ending June 30, 1967, exports may be about a fifth above 1965/66. Favoring U.S. exports are improved quality of recent flue-cured crops, the export payment program, and growth in overseas cigarette consumption. Mandatory United Nations sanctions against Rhodesian tobacco--replacing voluntary sanctions--will continue to stimulate foreign purchases of U.S. tobacco.

The 1966/67 total U.S. supply of flue-cured tobacco--the leading cigarette and export tobacco-- is 2 percent below 1965/66 and 6 percent below the record 1964/65 level. The 1966 crop was about 4 percent above the relatively small 1965 crop, but this increase was more than offset by a decline in mid-1966 carryover stocks. A further reduction in carryover stocks by mid-1967 is likely. Prices for the 1966 crop averaged near 67 cents a pound, about $2\frac{1}{2}$ cents above 1965 and a record high. About 7 percent of the 1966 crop was placed under loan--nearly the same proportion as in 1965. During the past year, sales from older-crop Government loan stocks have been substantial. The 1967 national flue-cured quota--the third under the acreage-poundage program--is the same as in 1966. Though the national quota is unchanged, marketings in 1967 may be around one-tenth larger than in 1966, because growers who marketed less than their allocated quotas in 1966 are entitled to make up these undermarketings in the 1967 season. Those who over-marketed in 1966 will have the excess deducted from their 1967 marketing quotas. However, undermarketings were considerable larger than overmarketings.

Total supply of burley for 1966/67 is about $3\frac{1}{2}$ percent below the comparatively high average of the preceding 2 years. Marketings of the 1966 crop were nearly completed by January 27. Prices for gross sales averaged 67.0 cents per pound, compared with 66.9 cents the year before. About 9 percent of deliveries went under Government loan, compared with 7 percent for the 1965 season.

Burley tobacco growers will vote in a referendum during February 27-March 3, 1967, to decide between continuation of the present acreage allotment program and an acreage-poundage program. If more than two-thirds of the farmers voting favor the acreage-poundage program, it will be in effect for the 1967, 1968, and 1969 crops. Otherwise, the acreage allotment program will remain in effect.

The 1966/67 supplies of Kentucky-Tennessee fire-cured and of Virginia fire-cured are down 5 and 3 percent, respectively, from the previous year. The 1966/67 supply of dark air-cured tobacco is about the same as the year before, but that of sun-cured is down moderately to the lowest in many years.

Auction prices of Virginia fire-cured, type 21, average 4 percent higher for the season through January 31 than a year earlier. Auction markets for Kentucky-Tennessee fire-cured, types 22 and 23, opened January 17 and January 16, respectively. Through January 31, type 22 averaged 43.1 cents a pound, compared with 42.9 cents a year earlier; type 23 averaged 40.9 cents a pound, the same as a year earlier. Average prices of One Sucker and Green River were up about 1 percent from a year earlier. Auction sales at Richmond for Virginia sun-cured ended January 20. Prices for the season averaged 7 percent above the 1965 season.

The 1966/67 supply of Maryland tobacco is estimated to be record-high--slightly topping the previous year's level. Auctions for the 1966 Maryland crop were scheduled to begin April 11, 1967. Government price support will not be in effect for the 1966 crop, since growers disapproved marketing quotas.

Government price support must be provided for the kinds of tobacco under marketing quotas. The 1966 crop price support levels are about 2 percent above 1965. Calculated in accordance with the legal formula, 1967 price support for the eligible kinds of tobacco will again be up about 2 percent from the previous year's levels. During 1962-65, overall support levels rose about 1 percent a year.

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